In memory of my beloved kid brother

James Kerago Ngondo (1966-1988)

No life is lived in vain, however short.
THE MANAGEMENT OF PUBLIC ENTERPRISES

IN KENYA: WITH SPECIAL REFERENCE TO

KENYA MEAT COMMISSION (1977-1987)

BY

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"A THESIS SUBMITTED IN PART FULFILLMENT FOR THE

DEGREE OF MASTER OF ARTS IN

THE DEPARTMENT OF GOVERNMENT, NAIROBI UNIVERSITY".

1991
THIS THESIS IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY

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ACKNOWLEDGEMENT

Several people and institutions made many useful contributions in one way or another towards the research and writing of this thesis. Since it is not possible to mention each one of them by name, I hereby register my deep appreciation for their assistance.

However, I feel duty-bound to mention a few names. First, I am very grateful to the Directorate of Personnel Management, Office of the President and the Ministry of Health for granting me a two year paid study leave to undertake a Master of Arts (M.A.) degree course.

Second, my most profound and sincere thanks go to my supervisor, Prof. Njuguna Ng'ethe, Director, Institute for Development Studies. Prof. Ng'ethe closely assisted me to bring out from the several drafts, what is now a complete thesis. In doing so, he made me achieve what at times looked like an impossible feat. To him, I owe my greatest debt and gratitude.

Third, I am grateful to the management of KMC for allowing me into the Commission and making accessible annual reports and other documents that were of importance to my study. At the Commission, I am most indebted to Mr. P. Kigera without whom I would not have understood the intricacies of the Commission.

Fourth, my appreciation goes to two departments that were created vide the State Corporations Act, 1986. These are the Auditor-General State Corporations where Mr. A. Ndenge was always willing and happy to welcome me to his office and answer my
numerous queries. The other is the Inspectorate of State Corporations. Here, I would like to specifically thank Mr. R. Ndubai, who gave me invaluable information and also availed some reading materials. To these institutions and officers: I am very grateful.

Fifth, I am grateful to Mrs. Susan Mureithi of National Youth Service, for her very important contact. Mr. Stephen Muchiri of Ministry of Health, for his all-round assistance and Mr. P. Mareka Ngondo of Pangani Girls, Nairobi, for agreeing to proof-read the final draft of this thesis.

Finally, I would like to extend a word of thanks to all those people who at one stage or another assisted in the typing of this thesis. I would specifically like to mention Ms. Lucy Njehu, Ms. Lucy Gitau and Mr. Boniface Mbuvi: their patience and excellent work was a great encouragement.

To them all who assisted me, I once again say: THANK YOU!
ABSTRACT

Public enterprise is a common feature of many economies throughout the world. It is a formula that has been applied in capitalist, socialist and mixed economies.

The case of developing countries reveals that, after the euphoria of political independence, the exigencies of economic independence called for increased state intervention in public enterprises through which the nationals would control the economy.

In both the developed and developing countries, Kenya included, this intervention has been motivated by practical necessity, economic development, defence and strategic considerations, and political philosophy.

However, in Kenya, like in other parts of the World, public enterprises are generally inefficient and unprofitable, and have therefore to rely on Government subsidy to keep them operating.

This thesis examines the management of public enterprises in Kenya with specific reference to Kenya Meat Commission. It identifies the major reasons for the inept performance of public enterprises and suggests that divestiture might be a good and "final" managerial solution to the problem.

On Kenya Meat Commission, the study looks at the management structure and the management functions vis-a-vis its performance. The conclusion is that, apart from the general explanations identified as causing poor public enterprise performance, the failure of the Commission's Management to observe the principal
management functions led to its undoing.

The thesis therefore points out that, the Commission, as is the current World trend with public enterprises, should either be liquidated or privatised for better performance. The divestiture would also save the economy the burden of supporting a nonviable public enterprise.
# TABLE OF CONTENTS

## CHAPTER ONE

### INTRODUCTION

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Objectives</td>
<td>5</td>
</tr>
<tr>
<td>1.2.1 General Objectives</td>
<td>6</td>
</tr>
<tr>
<td>1.2.2 Specific Operational Objectives</td>
<td>7</td>
</tr>
<tr>
<td>1.3 Justification</td>
<td>7</td>
</tr>
<tr>
<td>1.4 Theoretical Framework</td>
<td>8</td>
</tr>
<tr>
<td>1.4.1 Definition of Key Theoretical Terms</td>
<td>13</td>
</tr>
<tr>
<td>1.4.1.1 Planning</td>
<td>13</td>
</tr>
<tr>
<td>1.4.1.2 Directing</td>
<td>14</td>
</tr>
<tr>
<td>1.4.1.3 Coordination</td>
<td>15</td>
</tr>
<tr>
<td>1.4.1.4 Control</td>
<td>15</td>
</tr>
<tr>
<td>1.4.1.5 Staffing</td>
<td>16</td>
</tr>
<tr>
<td>1.4.1.6 Management of the External Environment</td>
<td>17</td>
</tr>
<tr>
<td>1.5 Performance</td>
<td>18</td>
</tr>
<tr>
<td>1.6 Hypotheses</td>
<td>19</td>
</tr>
<tr>
<td>1.6.1 General Hypothesis</td>
<td>19</td>
</tr>
<tr>
<td>1.6.2 Specific Hypotheses</td>
<td>19</td>
</tr>
<tr>
<td>1.7 Methodology</td>
<td>20</td>
</tr>
<tr>
<td>1.7.1 Study Area</td>
<td>20</td>
</tr>
<tr>
<td>1.7.2 Methods of Study</td>
<td>21</td>
</tr>
<tr>
<td>1.7.3 Questionnaire Administration</td>
<td>22</td>
</tr>
<tr>
<td>Section</td>
<td>Title</td>
</tr>
<tr>
<td>---------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>1.7.4</td>
<td>Data Analysis</td>
</tr>
<tr>
<td>1.8</td>
<td>Thesis Organization</td>
</tr>
<tr>
<td>1.9</td>
<td>Summary: Introduction to the Study</td>
</tr>
<tr>
<td></td>
<td><strong>CHAPTER TWO</strong></td>
</tr>
<tr>
<td></td>
<td><strong>LITERATURE REVIEW</strong></td>
</tr>
<tr>
<td>2.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>2.2</td>
<td>Justification of Public Enterprises</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Practical Necessity</td>
</tr>
<tr>
<td>2.2.2</td>
<td>Economic Development</td>
</tr>
<tr>
<td>2.2.3</td>
<td>Defence and Strategic Considerations</td>
</tr>
<tr>
<td>2.2.4</td>
<td>Political Philosophy</td>
</tr>
<tr>
<td>2.3</td>
<td>Forms of Public Enterprises</td>
</tr>
<tr>
<td>2.4</td>
<td>Organizational Types</td>
</tr>
<tr>
<td>2.4.1</td>
<td>Departmental Management</td>
</tr>
<tr>
<td>2.4.2</td>
<td>Public Corporation</td>
</tr>
<tr>
<td>2.4.3</td>
<td>State Company</td>
</tr>
<tr>
<td>2.4.4</td>
<td>Operating Contract</td>
</tr>
<tr>
<td>2.5</td>
<td>Management of Public Enterprises</td>
</tr>
<tr>
<td>2.5.1</td>
<td>Salient Explanations</td>
</tr>
<tr>
<td>2.5.1.1</td>
<td>Objectives of Public Enterprises</td>
</tr>
<tr>
<td>2.5.1.2</td>
<td>Control of Public Enterprises</td>
</tr>
<tr>
<td>2.5.1.3</td>
<td>Composition of Boards of Public Enterprises</td>
</tr>
<tr>
<td>2.5.1.4</td>
<td>Staffing of Public Enterprises</td>
</tr>
<tr>
<td>2.5.1.5</td>
<td>Monopolistic Nature of Public Enterprises</td>
</tr>
</tbody>
</table>
CHAPTER THREE

PUBLIC ENTERPRISES IN KENYA

3.1 Introduction .................................. 88
3.2 Motives for the Establishment of Public Enterprises 95
3.2.1 Practical Necessity ............................... 96
3.2.2 Economic Development .......................... 103
3.2.3 Defence and Strategic Considerations ............. 108
3.2.4 Political Philosophy ............................ 110
3.3 Forms of Public Enterprises ...................... 115
3.3.1 Business Organizations ....................... 115
3.3.2 Development Organizations ...................... 116
3.3.3 Service Organizations .......................... 117
3.4 Management of Public Enterprises in Kenya .......... 119
3.4.1 Salient Explanations ........................... 123
3.4.1.1 Objectives of Public Enterprises .............. 124
3.4.1.2 Control of Public Enterprises ................. 129
3.4.1.3 Composition of Boards of Public Enterprises ... 136
3.4.1.4 Staffing of Public Enterprises ............... 143
3.4.1.5 Issue of Monopoly ............................ 149
3.5 Divestiture as Final Managerial Solution .......... 151
3.6 Summary: Performance of Public Enterprises in Kenya .... 158
CHAPTER FIVE

THE PERFORMANCE OF KENYA MEAT COMMISSION

5.1 Introduction ............................................. 210
5.2 Overview ................................................ 214
5.2.1 Performance: 1950 - 1976 .......................... 217
5.2.2 Performance: 1977 - 1987 .......................... 220
5.3 Management Structures .................................. 223
5.3.1 Internal Management Structures ..................... 224
5.3.1.1 Objectives ........................................ 224
External Management Structures 
Ministry of Livestock Development 
Board of Commissioners 
Private Abattoirs 
Management Functions 
Planning 
Directing 
Coordination 
Control 
On Human Resources 
On Material Resources 
On Financial Resources 
Staffing 
Staff Remunerations 
Decision Making 
Marketing 
Summary: Performance of Kenya Meat Commission

CHAPTER SIX
CONCLUSION

Introduction
Main Conclusions
From Literature Review
From Kenya Meat Commission
Synthesis
State of Hypotheses
LIST OF TABLES

3.1 Public Enterprises Established in Kenya
   Between 1940 and 1991 ..................... 93
4.1 LMD Purchases 1977 - 1987 .................... 192
5.1 K.M.C. Performance (1976-JUNE 1988) ........... 222
5.2 Physical Stock Count as of 31st December, 1984 . 259
5.3 Employees' Academic Standards .................. 263
5.4 Ethnic Composition of KMC Management
   as of May, 1990 .................................. 268

LIST OF FIGURES

4.1 Kenya Meat Commission - Organization Chart .......... 172
4.2 Operational Model of Kenya Meat Commission .......... 176
5.2 Cattle Purchases (1976 - June, 1988) ................. 257
5.3 Local and Export Sales (1976 - June, 1988) ............ 277
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACNC</td>
<td>Accounts Clerk National Certificate</td>
</tr>
<tr>
<td>ACP</td>
<td>African Carribean and Pacific (Countries)</td>
</tr>
<tr>
<td>ADC</td>
<td>Agricultural Development Corporation</td>
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<td>AFC</td>
<td>Agricultural Finance Corporation</td>
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<td>ALMO</td>
<td>African Livestock Marketing Organization</td>
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<tr>
<td>BAT</td>
<td>British American Tobacco</td>
</tr>
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<td>BOAC</td>
<td>British Overseas Aircraft Corporation</td>
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<tr>
<td>CDW</td>
<td>Cold Dressed Weight</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
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<tr>
<td>CPS</td>
<td>Certified Public Secretary</td>
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<tr>
<td>CGV</td>
<td>Guyana Venezuela Corporation</td>
</tr>
<tr>
<td>CSFC</td>
<td>Cereals and Sugar Finance Corporation</td>
</tr>
<tr>
<td>DFCK</td>
<td>Development Finance Corporation of Kenya</td>
</tr>
<tr>
<td>DPM</td>
<td>Directorate of Personnel Management</td>
</tr>
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<td>BC</td>
<td>European Community</td>
</tr>
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<td>FAO</td>
<td>Food and Agricultural Organization</td>
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<td>HCDA</td>
<td>Horticultural Crop Development Authority</td>
</tr>
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<td>ICDC</td>
<td>Industrial and Commercial Development Corporation</td>
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<td>IDC</td>
<td>Industrial Development Corporation</td>
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<tr>
<td>IDS DP</td>
<td>Institute for Development Studies, Discussion Paper</td>
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<td>IDS OP</td>
<td>Institute for Development Studies, Occasional Paper</td>
</tr>
<tr>
<td>IDS WP</td>
<td>Institute for Development Studies, Working Paper</td>
</tr>
<tr>
<td>IPA</td>
<td>Industrial Promotion Areas</td>
</tr>
<tr>
<td>KA</td>
<td>Kenya Airways</td>
</tr>
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<td>KANU</td>
<td>Kenya African National Union</td>
</tr>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
</tr>
<tr>
<td>KENATCO</td>
<td>Kenya National Transport Corporation</td>
</tr>
<tr>
<td>KIE</td>
<td>Kenya Industrial Estate</td>
</tr>
<tr>
<td>KMC</td>
<td>Kenya Meat Commission</td>
</tr>
<tr>
<td>KNTC</td>
<td>Kenya National Trading Corporation</td>
</tr>
<tr>
<td>KPLC</td>
<td>Kenya Power and Lighting Corporation</td>
</tr>
<tr>
<td>KPTC</td>
<td>Kenya Posts and Telecommunications Corporation</td>
</tr>
<tr>
<td>KRC</td>
<td>Kenya Railways Corporation</td>
</tr>
<tr>
<td>KTDA</td>
<td>Kenya Tea Development Authority</td>
</tr>
<tr>
<td>LMD</td>
<td>Livestock Marketing Division</td>
</tr>
<tr>
<td>MOLD</td>
<td>Ministry of Livestock Development</td>
</tr>
<tr>
<td>MP</td>
<td>Member of Parliament</td>
</tr>
<tr>
<td>NCC</td>
<td>National Construction Corporation</td>
</tr>
<tr>
<td>NCPB</td>
<td>National Cereals and Produce Board</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>OP</td>
<td>Office of the President</td>
</tr>
<tr>
<td>RIDC</td>
<td>Rural Industrial Development Centre</td>
</tr>
<tr>
<td>SCDA</td>
<td>Special Crop Development Authority</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
</tr>
<tr>
<td>SONY</td>
<td>South Nyanza Sugar Company</td>
</tr>
<tr>
<td>TARDA</td>
<td>Tana and Athi Rivers Development Authority</td>
</tr>
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<td>TVA</td>
<td>Tennessee Valley Authority</td>
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<td>UIC</td>
<td>Union International Consultants</td>
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</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.1 Introduction

This thesis is about the management of public enterprises in Kenya, with special reference to the Kenya Meat Commission (KMC). As it is well known, there has been a proliferation of public enterprises all over the world in the last three decades. This has been the case irrespective of whether a country is developed or developing; socialist, capitalist or a mixed economy.

The specific factors responsible for the actual state intervention in the economy have however varied from one country to another depending on a country's level of economic development. Among them is the need for the Government to provide essential public services at reasonable cost, the Government's desire to get a larger share of profitable enterprises in order to facilitate rapid economic and social development of the country as a whole, the need to obtain international finance on a large scale, and the need to provide a balanced regional growth. The intervention can also be motivated by the need for self-reliance as opposed to reliance on foreign aid. On the whole, the intervention has been motivated by practical necessity, economic development, defence and strategic considerations and political philosophy.

Regardless of the above general reasons for setting up the public enterprises, the specific objectives have varied.
In general, we find a multiplicity of objectives, both social and economic. Hence, the classification of public enterprises into various forms will differ from one author to another and will mainly depend on what a particular author wants to explain.

The organizational types of these public enterprises have also varied between specific countries depending on a country's legal framework. There are, however, four major organizational/institutional types of government participation (Hanson, 1959:336-359). The first type is the Departmental Management which are mainly extensions of the parent Ministries. The second type are the Public Corporations which are mainly established by Acts of Parliament or some other similar methods such as presidential decrees in some regimes. The third type is the State Company which is wholly or partially owned by the state and operates under Company Law. The last type is the Operating Contract. Here, the Government contracts the management of a public enterprise to an established private company.

A lot of public funds are channelled through these public enterprises. However, despite various control mechanisms, their performance has in general been mediocre, regardless of the actual reasons why they were set up and regardless of their institutional types. This poor performance has given rise to a lot of speculation regarding the reasons for the poor performance. This has been the case in both developed and developing countries. The poor aggregate performance of public enterprises is especially disturbing since most of them are monopolies and often control some
of the potentially largest revenue earning activities.

Furthermore, the poor financial results mean little or no self-financing of investment, rising debt and a growing burden on the Treasury. This concern is usually reflected in a simple question: why do public enterprises persist in making losses while private enterprises in similar operations show profit?

In Kenya, the performance of public enterprises has been terribly disheartening. The Ndegwa Report noted that,

"By 1982, cumulative investments by government including guaranteed debt exceeded K£ 900 million in its 176 parastatals. At a rate of return of 10%, Government should have been realising K£ 90 million per annum share ownership in dividends. Instead, in 1978/79 dividends paid to the exchequer amounted to only K£ 2.2 million and were paid by only six parastatals" (Ndegwa, 1982:41).

In response, the Kenya Government has made tremendous effort to streamline the sector with a view to putting into place a machinery to effectively monitor and control the sector. Thus in 1979, President Moi appointed the Ndegwa Commission of Inquiry to review the operation of the sector. But the policy paper that gave the most comprehensive position of the public sector was the report of The Working Party on Government Expenditures, 1982. It is on the recommendation of this Commission that the government introduced the State Corporations Act of 1986, through which the state hoped to introduce a more effective system of controlling the public enterprises. The Act established the Inspectorate of Statutory Boards to offer consultancy services to public enterprises and Ministries on matters pertaining to the effective management of public enterprises.
Secondly, the Act created the Office of the Auditor General, State Corporations to audit all public enterprises books of accounts. Finally, a State Corporation Advisory Committee composed of senior government officials and representatives of the private sector was created. The Committee had the mandate to advise the President on the re-organization of the public enterprises.

All the above effort point in the same direction: control of public enterprises. Is this then the answer to the poor performance?

Earlier in June 1983, the government had appointed a Task Force on Divestiture of Government Investment under the Chairmanship of Mr. V.H. Harding. Its terms of reference included advising the government on which parastatals to sell. But the committee was dissolved after two years of operation without any indication as to which public enterprises should be sold or absorbed by the parent Ministries. What then are the limits and possibilities of divestiture?

In spite of all these, there is a great deal of official and non-official dissatisfaction with the performance of public enterprises in Kenya. This is because they have, by and large, performed inefficiently. Is there then something wrong with the manner in which our public enterprises are managed? This is because, despite the continued input of capital, the control mechanisms effected and the protection accorded to some of these enterprises, they are finally largely unable to pay any dividend to
the exchequer.

Hence, the conventional answer to the above question is "YES". However, a more cautious answer is that we are not too sure of the answer and this is the problem.

1.2 Objectives

The aim of this study is to look into the management of the Kenya Meat Commission with a view to explaining its performance. This entails an examination of how and why the management failed to steer the Commission to a viable enterprise taking into account that some of our public enterprises have managed quite well.

For example, two public enterprises which have managed well include the Kenya Pipeline Company and the Kenya Power and Lighting Company.

The Kenya Pipeline Company was established in 1975 as a monopoly for the transportation of oil products. Though it performed poorly in its initial years upto 1979, the performance trend changed in 1980 when it started operating full capacity and since then, it is a well managed and a highly profitable enterprise. According to Grosh, its "Total returns on assets (--- defined as profit plus interest over net assets) have generally surpassed 25 percent, while returns on equity have generally been double that. Thus the K.P.C is able to meet its debt obligations and has since 1980 made large contributions to the Treasury in the form of corporation tax and dividends as well" (Grosh, 1991: 124).
The other public enterprise which has performed well is the Kenya Power and Lighting Company. KPLC was established in 1971 as a monopoly to generate and distribute electricity throughout the country. We find that, though the demand for electricity has grown rapidly, KPLC sales "have grown at a rate of 7.4 percent p.a. from 1964 to 1988. This impressive output expansion was accompanied by impressive performance on most other measures" (Grosh, 1991: 129).

In addition, KPLC has since 1978 operated a rural electricity scheme. Nevertheless, it has been able to finance this social spending from its monopoly profits and has remained financially healthy.

Likewise, as a viable enterprise, K.M.C would have effectively participated in the process of economic development of the country and been able to solve the actual problems and inadequacies that resulted in its creation. For this reason, the study has the following objectives.

1.2.1 General Objectives

i) To look into the general management of the Kenya Meat Commission with a view to explaining its performance.

ii) To look into how the management functions have been undertaken within the K.M.C. These functions are planning, directing, coordinating, controlling, staffing and management of the external environment.
iii) To analyse the interaction of the Commission with its environment, with a view to searching in this environment some possible explanations for the performance of K.M.C.

1.2.2. Specific Operational Objectives

i) To look into the composition of the Board of Commissioners of K.M.C with a view to assessing whether the Board is suited to the task of running the Commission.

ii) To look into the decision-making process of the Commission. This requires us to find out to what extent and stage the workers were involved in the decision making process with a view to assessing their ability to identify with the enterprise.

iii) To find out the effect of competition by private abattoirs on the performance of K.M.C. This will help us assess the relation between competition and performance.

1.3. Justification

A number of studies have been done before on public enterprises. However, the tendency has been for the studies to look at on-going enterprises that have performed fairly well such as Kenya Tea Development Authority (Wanyande, 1981), and Mumias Sugar Company (Barclay, 1977). No study has been done so far on an enterprise that has performed badly though here is where we have
the greatest number of our public enterprises. The tendency to study "success" is disturbing in that we should be able to learn as much from those that have collapsed as from the successful ones.

It is for this reason that this study seeks to generate empirical evidence to bear on the management problems that finally led to the collapse of K.M.C. in 1987. Such evidence on a public enterprise which went into closure has not been gathered before. Therefore, the study is necessary in order to understand and evaluate the problems that face similar public enterprises in trying to achieve their objectives. In the circumstances, this study hopes to give us an insight into the way K.M.C. was managed with the hope that the information might be helpful not only to the present K.M.C. management but also to other public enterprises in their endeavour to improve their performance.

1.4 Theoretical Framework

Public enterprises are to be found in key sectors of the economy in capitalist, socialist and mixed economies. Having been created for many reasons, viz, practical necessity, economic development, defence and strategic considerations and political philosophy, they are expected to meet their specific objectives depending, of course, on which objectives they were established for.
However, the manner in which they are managed has led to their being classified into two categories, namely; efficient and inefficient public enterprises. For the inefficient ones, the general conclusion is that the management practices are wrong (Barnard, 1962: 233). Likewise, for the efficient ones, the managers follow good management functions. Hence the question: Which are these (good) Management Functions?

Management has been defined by some as an art and by others as a science. However, there seems to be a general agreement that it is "the 'know-how' to accomplish a desired concrete result by making use of underlying organized knowledge and applying it in the light of realities to gain a desired practical result" (Koontz, 1968:8). In concurrence with Koontz is Haimann, who defines management as "a social and technical process that utilizes resources, influences human action, and facilitates changes in order to accomplish an organization's goals" (Haimann, 1978:9). Richard's definition of management is more encompassing. According to him:

"Management is the art of getting things done through and with people in formally organized groups; the art of creating an environment in such an organized group where people can perform as individuals and yet cooperate toward attainment of group goals; the art of removing blocks to such performance; the art of optimizing efficiency in effectively reaching goals" (Richard, 1969: 18).

The importance of management for organizational efficiency has always been noted. Thus, it has always been recognized that "its principles (management), if well founded, must be equally applicable to all forms of organized human cooperation, to the
business of government in any form as well as to the government of business" (Urwick, 1956:ix).

As a result, various theories on management principles have been developed in an endeavour to explain organizational efficiency. Frederick Taylor, who "was the first (person) to emphasize that management was a very important ingredient in the effective operation of organizations" (Moore, 1982:24), came up with the theory of Scientific Management or the Engineering Approach. The main assumptions underlying this theory were that:

- Jobs should be done in the one best way and it is a management obligation to find out this best way and to teach it to workers.
- Time standards, set by time study methods, should be set for all jobs wherever possible. Taylor was the father of time study.
- Employees should be selected and assigned to jobs in accord with the match-up of their capabilities and the jobs requirements.
- Close and friendly cooperation between workers and management is the most effective way to become efficient (Moore, 1982:27).

Although Taylor's principles were intended for broad application, "his emphasis was not on general management but on management at the shop level. He was concerned mainly with the efficiency of workers and managers in actual production. This preoccupation screened out the need to discover and use management principles at all levels and in all functions of business" (Koontz, 1968: 20).

As a reaction to Scientific Management, the Human Relations Approach developed. This approach which is associated mainly with
Elton Mayo "added the human factors in management to the roster of independent variables" (Sills, 1968: 66). Therefore, Mayo's main contribution to management was his elevation of human and particularly the social factors in industrial relationships to an important variable. Following the Hawthorne Experiments (1927-32) in the Western Electric Company, he concluded that logical economic factors are far less important even in economic relationships than emotional and non-logical attitudes and sentiments. Moreover, of the human factors influencing an employee's attitudes and sentiment, the most powerful are those arising from his participation in social groups. "Thus not only must arrangements for work satisfy the objective requirements of accomplishing the purpose to which the effort is directed, but the arrangements will be effective only if, simultaneously they satisfy for the workers concerned this subjective requirements of social satisfaction in the working process" (Urwick, 1956: 220 - 221).

It was in the process of a search for a suitable theory of management that finally Henry Fayol (1841 - 1925) came up with a set of five management functions. (Fayol also proposed 14 principles of management). Therefore, management functions as an approach to managerial work, had its genesis in the work of Fayol. His five management functions were planning, organising, command, coordination and control.

These functions have been revised and extended over the years by a number of distinguished management theorists. One of these theorists is Lyndall Urwick who in his formulation has accepted all
the functions as identified by Fayol. He however adds a sixth function, that of forecasting (Miner, 1973:48).

Another theorist who is clearly in the Fayol tradition is James Belasco. Belasco, almost like Urwick accepts almost all of Fayol's formulations except command which he substitutes with directing (Belasco, 1975: 20).

Finally, Harold Koontz in his analysis accepts only planning and organizing. However, like Belasco he also accepts the directing function. But unlike any of the rest, he has included the staffing and accounting functions to his formulation (Koontz, 1968).

From the above analysis of the four management theorists, we can see that there is a general agreement of what are the salient management functions. General in the sense that there is no complete agreement on which concepts should constitute the principal management functions. However, there is consensus of their usefulness in discussing managerial work. As Miner observes, "lists of managerial functions, whether they contain three items or seven, have proved useful as a framework for discussing managerial work" (Miner, 1973:50).

Our study is therefore going to view the management of K.M.C through the Management Framework. The framework is going to utilize management functions as summarised by Miner (1973) in *The Management Process*. Miner categorises the management functions into two, namely, primary and secondary functions. The primary functions are planning, directing, coordinating and controlling,
while the secondary functions are representing and staffing.

A look at these functions shows that they are all internally oriented except for the representation function. However, representation is too restricted since it is confined to the marketing aspect of the enterprise only. As a result, the study has substituted it with the management of the external environment function.

In the study, we are then going to analyse the above main management functions which are going to help us understand what a good management team should orient itself to with an end to making the organization efficient. However, in applying this framework, we shall also seek to understand the nature of the functions in a practical set up.

1.4.1 Definition of Key Theoretical Terms

1.4.1.1 Planning

Planning is a process which involves decisions concerning how the organization is to accomplish its goals or objectives. This includes deciding what is to be done, how it is to be done, when it is to be done, and by whom it is to be done. It is then in this respect that Urwick defines it as "an intellectual process, a mental predisposition to do things in an orderly way, to think before acting, and to act in the right of facts rather than of guesses. It is the antithesis of gambling ..." (Urwick, 1943:
33). Haimann is more explicit in his definition which sees planning as "selecting objectives, policies, programs, and procedures. It involves looking ahead and preparing for the future ... It precedes all other managerial functions; ... nothing can be done without a plan" (Haimann, 1978:12). Although planning is the primary function, it is also a continuing one and is carried out simultaneously with the other 'principal' functions. The importance of planning is echoed by Belasco in the following words: "without planning, any organization will just drift along and will ... soon disappear" (Belasco, 1975:21).

1.4.1.2 Directing

Directing is a function that includes all those activities which are designed to encourage subordinates to work effectively in both the short and the long run. According to Miner, directing is a "means for getting the best performance out of the organization members once they are hired" (Miner, 1973: 65).

Supervision is therefore very central in directing. It attempts to obtain the closest match possible between what the workers are expected to do (role prescriptions) and what they actually do (role behaviour) by inducing a maximal contribution. This then brings forth the issues of communication, motivation and chain of command. Hence, directing involves leading and motivating the members in their role prescriptions in such a way that the overall goals of the organization can be achieved. Therefore, the
directing function must be geared to satisfying "the needs of the employees so that the organisation can continue to exist in future" (Belasco, 1975: 21).

1.4.1.3 **Coordination**

Coordination is sometimes placed at the very centre of all the management functions. It is argued that coordination is the internal objective underlying an organisation; that the purpose of organization is coordination. We can further argue here that, without coordination there is no organization for the component parts of the organization will fall apart. Fayol reaffirms this definition in his submission that coordination is a "harmonising process pulling various parts of the corporation together" (Miner, 1973:46). Therefore, all the departments/sections in an organization must work in coordination for they all have a single objective to meet: to make the organization efficient by meeting its goals.

1.4.1.4 **Control**

Control is nothing more than seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given and the principles which have been laid down. Therefore, in control we are checking whether everything is going according to our plans and, if not, checking
any deviations with a view to seeing that everything is geared towards achieving the objectives. According to Richards, control is "checking to determine whether plans are being observed and suitable progress towards the objectives is being made, and acting if necessary, to correct any deviations" (Richards, 1969 : 393).

Therefore, in control the managers have a duty to see that there is no disagreement between the plans and the actual performance. If any, it is then their duty to make the changes needed to bring the performance in line with the plans.

Auditing is a control mechanism. It helps to direct role behaviours towards role prescriptions. Without financial control, an organization would just collapse due to embezzlement, misappropriation, overpricing/underpricing and outright theft. Therefore, auditing is necessary in order "to make financial control absolutely watertight as regards precautions against influences which may be brought to bear on the individual" (Urwick, 1947 : 101).

1.4.1.5 Staffing

Staffing is an executive function which involves recruitment, selection, compensation, training, appraisal, promotion and retirement. Staffing involves all cadres of people in the organization from the Board of management, management staff, upto the non-management staff.
To begin with, we see that the quality of the managers in an organization has an effect on whether the organization objectives will be achieved or not (Koontz, 1968). There is then the need to use appropriate methods in the recruitment and selection of managers. This point also applies to the non-management staff.

On the Board of management, the issue, as discussed in Chapter Two, is whether there ought to be a technical/functional Board composed of experts and professionals in the particular field as opposed to a representative Board, which more often than not, is usually a "political Board" due to a lot of patronage in its selection (Ndegwa, 1979).

Compensation, training, appraisal, promotion and even retirement boost the morale of the workers who are then motivated to perform even better.

1.4.1.6 Management of the External Environment

This involves the management of external agencies such as government interference, politicians, customers, suppliers and competitors. All these affect in one way or another the enterprise's autonomy. As such, the enterprise is expected to be able to manage these external agencies in order to be able to retain as much autonomy as stipulated in the legal instruments which established it.

Marketing also comes under this function. It calls for an experienced and vigorous marketing staff able to penetrate all...
possible markets with a view to increasing the enterprise's sales. Markets here include both domestic and international markets. In this case, good marketing should be a vigorous drive to change the societal values such that though meat and meat related products from private abattoirs is cheaper, the public is educated to go for the more hygienic but expensive K.M.C. meat. This way an enterprise such as K.M.C. would be able to compete effectively against the private sector.

1.5 Performance

Performance literary means the act of doing a certain duty or piece of work through to completion. The term therefore denotes the manner of accomplishment whereby results of what one has done must be produced or seen.

In relation to public enterprise, the assessment of this performance becomes very difficult and tricky. This is because of the multiplicity of the objectives. In the case of purely commercial objectives where profits can be used as a measure of performance, performance assessment is easier. On the other hand, enterprises whose objectives are contradictory and unclear, the measurement of performance is very difficult.

In measuring performance in such enterprises, an evaluation should be done bearing in mind the objectives of each public enterprise. The latter's objectives should therefore be fully understood and quantified. If possible a mathematical weight
should be assigned to each objective. This in theory gives one a weighted index on performance. Thus, a manager should be able to monitor performance by collecting data on weekly or monthly basis (Abramson, 1980).

Moreover, by weighing the objectives, a public enterprise can seek government compensation for the cost of the social objectives performed. This way, an assessment of performance would be near to reality as it would be looked at through its two products, namely, organizational profit per se and public profit (arising out of the social objectives achieved).

1.6 Hypotheses

Within the theoretical framework, the following hypotheses have been derived:

1.6.1 General Hypothesis

i) The better the management functions are performed the better the enterprise performance.

1.6.2 Specific Hypotheses

i) The more functional the Board of Management the better the performance.

ii) The higher the participation of workers in decision making the better the performance.
iii) The more an enterprise is subjected to competition the more responsive the management becomes and hence the better the performance.

1.7 Methodology

1.7.1 Study Area

This is a study of the management of public enterprises with special reference to Kenya Meat Commission between the years 1977 and 1987. K.M.C, which was established by an Act of Parliament on 1st June, 1950 is situated in Athi River which is also the Commission's headquarters. It has branches in Mombasa, Nakuru, Halal in Ngong, and until 1968, Eldoret.

The Commission's objectives are mainly to implement certain government policies concerning the livestock sector such as to be a buyer of the last resort during drought seasons, to be a price stabilizing agency in the meat industry and to be an exclusive exporter of meat hence to earn the country the much needed foreign exchange.

The choice of K.M.C. was occasioned by the fact that it is one of the country's public enterprise that has performed very poorly to the extent that it was declared technically insolvent in November, 1987. Before the insolvency, the Commission had not declared any profit in the previous ten years (1977-1986). This is
the reason why the study focuses on the management to find out why it was unable to make the K.M.C. a viable public enterprise.

1.7.2 Methods of Study

There were two research methods in this study. The first and our main method was the utilisation of secondary data. This involved a review of annual reports and books of accounts of the Commission. In addition, evaluation and study reports, files, Board Minutes and other related and relevant documents were analysed.

The second method involved the survey method. Here, interviews were conducted with two categories of people. The first category were those people who were retained by the Commission when it was closed in 1987 and still continue in its employment. The second category involved those people outside the Commission who, in one way or another, had something to do with its performance. These included government officials and proprietors of private abattoirs and butcheries. On both categories an unstructured questionnaire was used.

K.M.C, which had a staff of 1,367 employees before it was closed, retained a staff membership of 235 employees. Out of these, 5 were in Mombasa, 3 in Landhies Road Depot (Nairobi), 2 in Halal (Ngong) and the rest 225 were based in Athi River. These 225 employees, plus the 3 and the 2 employees in Landhies Road Depot and Halal respectively, formed our population sample of the
retained employees whom we interviewed.

Since the 230 employees came under different departments, stratified sampling was applied. A sampling ratio of 1:5 (20%) was used which gave us a total of 46 respondents.

1.7.3 Questionnaire Administration

The questionnaire was administered to six groups of people, namely:

i) The 230 retained employees. As stated, a sample of 20% was used and this yielded 46 respondents who were interviewed. These employees were retained when the Commission went into insolvency and are still in its employment. The group, which the study stratified into departments, gave us an insight into the operations of the Commission vis-a-vis our management framework. An unstructured questionnaire was used.

ii) Present Management. An unstructured questionnaire was used. Discussions were held with ten members of the management staff. These gave us very vital information into the operations of K.M.C and the difficulties that it faces from within and without were elicited.

iii) Auditor General - State Corporations, Inspectorate of Statutory Boards and the State Corporation Advisory Committee. These three departments were set up by an Act of parliament, the State Corporations Act of 1986, following the recommendations of the Ndegwa Report on Government
Expenditures, 1982. They were all geared to improving the management and hence the performance of the public sector. The study managed to interview two officials from the Inspectorate of Statutory Boards and one from the Auditor General - State Corporations. However, the study failed to have an interview with any member of the State Advisory Committee. This was mainly because it is an Ad hoc committee and membership is according to the office holder. Moreover, the committee rarely meets. In 1989 it met two times only. None of the 'members' approached by the author had attended either of the meetings as they were not then the incumbents. Of those interviewed, an unstructured questionnaire was used.

iv) Ministry of Livestock Development. The study had an interview with two officials (under whose mandate K.M.C. falls) mainly on the role of the Ministry vis-a-vis the management of the Commission. An unstructured questionnaire was used. The Ministry's library was also very useful with materials on livestock industry and reports on K.M.C.

v) Private Abattoirs. Private abattoirs successfully competed with K.M.C. and arguably drove it out of the market. The study managed to have interviews with several 'successful' operators in and around Nairobi. An unstructured questionnaire was used.

vi) Butcheries. The study interviewed the proprietors of three major butcheries who gave general information as to why butcheries in and around Nairobi resulted in buying meat from
private abattoirs and not from K.M.C. whose meat was more hygienically prepared. An unstructured questionnaire was used.

1.7.4 Data Analysis

In analysing the data, the documentary analysis yielded both attitudinal and factual data. The unstructured questionnaire yielded invaluable background information on the operations of the Commission. It further yielded simple statistical frequencies on the respondents' attitudes towards the Commission's Management. From the hypotheses formulated, performance was what we sought to explain with the information so collected.

1.8 Thesis Organization

This thesis is divided into six chapters. This Chapter (One) has dealt with the introduction. Chapter Two is the literature review and it looks at the origin, the nature and the management of public enterprises in a historical perspective. The Third Chapter is on public enterprises in Kenya. It traces their origin back to the colonial period and looks at the development and the management of public enterprises in the post-colonial period. In Chapter Four, we have looked at the management structure and functions of Kenya Meat Commission. The Fifth Chapter analyses the performance of K.M.C. thereby showing the factors that contributed to its eventual insolvency. Finally, we make our general concluding remarks in Chapter Six.
Public enterprises are a central feature of the economy of both developed and developing countries alike, Kenya included. However, they have been a burden and a pain on the national exchequer as they have been incapable of utilising the scarce resources as efficiently as originally envisaged. It is this study's contention that the poor performance has been as a result of the inept management both from within and without the enterprises.

In this study, we shall be focusing on management of public enterprises in Kenya with special reference to Kenya Meat Commission in the years 1977-1987.

In order to fully understand the poor performance of Kenya Meat Commission, we have used a Management Framework and identified six management functions, viz, planning, directing, coordination, control, staffing, and the management of the external environment function.

We have also used a number of research methods in this study: secondary data and the survey method. In view of the fact that there are no principal management functions per se and that this cannot be directly observed but can only be deduced, the study used an unstructured questionnaire for background information and simple statistical frequencies.
2.1 Introduction

Public enterprises as a method of state intervention, regulation, control and management of the economy is now a common economic strategy all over the world. Regardless of their political leanings, all countries in the world today envisage some degree of government participation in investment in productive sectors. This investment is done through the public sector enterprises. Hence, public enterprises have become responsible for the major portion of public investment in the countries' development programmes and projects.

Two contending schools of thought seek to explain the emergence of these enterprises. One of these is the Marxist School. This school traces the evolution of public enterprises back to the writings of Karl Marx who foresaw Communism revolutionising all means of production into the hands of the state. Marx asserts that,

"The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the state, --- and to increase the total of productive forces as rapidly as possible" (Marx, 1958: 53).

This school views the establishment of public enterprises as an adoption of the socialist ideology of state intervention in the economy at a particular time in the development of the capitalist
production (Bitonye, 1981). As a result, the school approaches public enterprises primarily from a political ideological perspective.

The second school of thought views public enterprises as institutions of socio-economic development which transcend economics, politics, and ideology. This school is in many ways Anti-Marxist. The school asserts that public enterprises have developed as empirical responses to specific needs, without any preconceived theory, and without much uniformity.

Friedmann, who ascribes to this school, states that "--- they (governments) have all found it necessary, especially since the end of World War I, to develop public enterprises which would fulfil some of the many complex new tasks of government in forms other than those of departmental administration" (Friedmann, 1970: 303). Friedmann goes to great lengths to disassociate the evolution of public enterprise from the Marxian view. He therefore strongly asserts that, "--- the public enterprise as a whole should not be judged predominantly by ideological misconceptions. In most cases public corporations have been established in response to practical needs, and they have often been successful in ideologically uncongenial surroundings" (Friedmann, 1970:306).

Oyugi, though agreeing that Marxism gave the first articulation of state intervention in the economy, concurs with Friedmann that the evolution of public enterprises all over the world is not wholly directly related to Marxism. He writes:

"The idea that the state should actively participate in the management of the economy finds its major articulation in the
writings of Karl Marx and his disciples. But it would be going too far to even suggest that the emergence and growth of public enterprises throughout the World is a direct import of the Marxian doctrine" (Oyugi O.P. No. 39, 1982:58).

Notwithstanding, public enterprises are established by Acts of parliament or Presidential decrees in some type of regimes. Therefore, they "are created by political bodies --- hence, their establishment is 'presumed' by the legislature" (Balog, 1966: 28). The Act of Parliament defines the corporation's powers, duties, immunities, form of management and its relationship to established departments and ministries. The corporation has "a legal personality and can sue and be sued, enter into contracts and acquire property in it's own name" (Hanson, 1959: 343).

It is then clear that public enterprises are created for some specific activity: be it economic, social, cultural, political, or managerial. According to Nikola Balog, in creating public enterprises, two things are at play. One, "the need to create a specific type of public enterprise which will harmonize with the general social instruments" (Balog, 1966:28). Secondly, an "assurance of all possible safeguards for optimum investments and for the efficiency and profitability of the enterprise's future operation" (Balog, 1966:28). From this we see that no public enterprise is created to generate losses. They are meant to make profit: economic or otherwise (Nawab, 1985).

Although governments utilised public enterprises before World War II, it was after the War that modern public enterprises became a common-place instrument for implementing government policy. For example in Britain, a considerable amount of
nationalization had been undertaken before World War II:

"As early as 1857 the Mersey Harbour Board was constituted into an authority ---. Between the two World Wars, several public corporations were set up --- including the Central Electricity Board in 1926, the British Broadcasting Corporation in 1927, the London Passenger Transport Board in 1933 ---" (Ramanadhan, 1984:304).

Therefore, public enterprises are not, per se, a creation of post-World War II period. It is only that, during the period, they proliferated perhaps more than at any other period.

However, despite their establishment, their development into a more or less autonomous form has only in very few cases been the result of a deliberate and systematic set of legislative and administrative measures. This is mainly because of the manner in which they seem to mushroom for very minor reasons and without a clear deliberate plan. In most cases feasibility studies are not even undertaken before their establishment (Rweyemamu, 1975; Zambia, 1979; Nellis, 1986). However, public enterprises have come and are here to stay, at least for some time to come.

This then calls for a full understanding of public enterprises. In seeking to do so, this study has looked at the abundant literature related to these enterprises from a thematic approach. The themes employed are "Justification", "Forms", "Types", and "Management of Public Enterprises".
2.2. Justification of Public Enterprises

The reasons behind the proliferation of public enterprises are many and varied, mainly depending on a country's political, economic, cultural, social and management style. To justify the proliferation, the study has looked at the motives behind the proliferation from a number of sub-themes. However, we would like to point out that the themes are not exhaustively exclusive and in many ways do overlap as they are closely inter-related. The study has, however, broadly categorised the motives into four broad sub-themes, namely:

(i) Practical Necessity;

(iii) Economic Development;

(iii) Defence and Strategic Considerations; and

(iv) Political Philosophy.

2.2.1 Practical Necessity

Scholars have argued that the basic reasons for public enterprises in Africa and elsewhere today are those of practicability whereby public enterprises turn out to be the most important means to undertake certain public ventures and to gain control over key economic sectors thought vital for national development and sovereignty.

This practical necessity to establish public enterprises especially in the newly developed countries evolves from the fact
that the colonial administration left the economies of the newly independent states totally undeveloped. The little commercial activities left behind were in the hands of the foreigners. The countries lacked capital and expertise for large industrial establishments (Hanson, 1959; Rweyemamu, 1975; Fabrikant, 1976; Oyugi, IDS OP No. 39, 1982). Hence, for a rapid economic and social development, the countries had no choice but to resort to the most practical option: public enterprises.

Friedmann defines this practical necessity as "the indispensable need, in underdeveloped countries—usually those of insufficient resources—to intervene, in the interest of the general development of the country, in ventures which private capital is either not willing or able to launch" (Friedmann, 1970: 303). Thus, without capital and the necessary expertise, public enterprises turned out to be the most practical option for a rapid social and economic development.

In writing on the financial, managerial, and technological know-how facing African countries, Rweyemamu sums up the dilemma of these countries in the following words: "The new African countries committed as they are to rapid economic and social development of their societies had no choice but to resort to the creation of public enterprises" (Rweyemamu, 1975: 234).

Sudan, which was a British Colony from 1898 to 1956 is a good example of a country that established public enterprises out of practical necessity. The rationale for this is explained in the writings of one of the colonial administrators:
"What the Sudan mainly requires is an outlay of capital on a large scale, notably to improve the very defective means of communication which at present exist. It is quite hopeless to expect that unaided private enterprise will supply this want. In view of the certainty that a considerable period will have to elapse before any outlay will be remunerative, it is impossible to arrive at any other conclusion than that recourse must be had to government action" (Amara, 1976:2).

As a result, the Sudan Government established agricultural schemes (i.e. Gezira Irrigation Scheme), public utilities, railways and airline, and even hotels.

Governments have also realised that national development cannot be achieved by relying on the private sector alone since it is weak and does not necessarily come forward to invest in sectors which the government accord priority (Coombes, 1971; Amara, 1976; Mathur, 1984). This view is echoed by Seidman in his assertion that the private sector hesitates to undertake certain development projects either because of the prohibitive amount of capital required, or because such projects do not yield quick and attractive returns for investments (Seidman, 1974). Therefore, it is "best for the public sector to develop those industries in which the private enterprise is unable or unwilling to put the resources required and run the risks involved" (Dias, 1976:52). In this respect, Governments step in to facilitate the provision of some essential services to the nation (Hanson, 1959; Rweyemamu, 1975).

In Italy, one of reasons why she established public enterprises was because it was "inconceivable that private capital could, unsponsored and undirected by some central authority undertake the task adequately" (Coombes, 1971:199). Like Italy, Sweden initially established public enterprises in a like manner.
As Douglas Verney submits: "In a country so large, so sparsely inhabited and so comparatively underdeveloped as Sweden was in the nineteenth century, only the state could provide complete national networks of railways and telegraphs" (Verney, 1959: 7-8).

Olatunji Olagunju observes that, public enterprises in Nigeria represent one of the many ways of achieving a high level of prosperity and progress in a country with different levels and degrees of development (Olagunju, 1984). Therefore, "--- the state is commonly expected to invest in projects that are expected to contribute to development but in which the private enterprise is unlikely to invest" (Seidman, 1974: 304). As such, public enterprises "supplement private enterprise by filling gaps left open by private enterprise" (Dias, 1976:51).

Practical necessity is also witnessed when governments take over ailing private businesses. This act of bailing out private firms that are on the verge of collapse is undertaken for those industries which the government thinks are essential and crucial to the economy of the country (Nellis, 1986; Grosh, 1988). These take-overs take place when "a government acquires shares in a private firm, of national importance, in order to save it from bankruptcy" (Hanson, 1959:352). For example, during the period between the two World Wars, many European countries saved numerous private enterprises from financial collapse by taking them over.

There are many examples of take-overs in Africa. In 1961, Ghana purchased several gold mines when their foreign owners complained they were going out of business due to increased company
In Tanzania, in accord with the Arusha Declaration, the Government purchased about two-thirds of the nation's sisal estates after many of them had cut down their assets and threatened to go out of business when world sisal prices collapsed. Lastly, Uganda's Development Corporation purchased a textile plant (Nytil) from the private sector when the plant appeared to be failing (Seidman, 1974).

In all these cases of take-overs, the government intended to sell the shares as soon as the company had re-established itself and the market was favourable.

2.2.2 Economic Development

Economic development will here be taken to represent any attempt by the government to better the monetary power of its citizens and the nation in general in an environment of scarce resources. In this context then, "it is the need to spur --- development in the light of national priorities, and in the absence of sufficient responsible private capital" (Friedmann, 1970: 304).

Drawing from the above definition, it can be seen that almost all public enterprises (apart from research and educational institutions) would fall under this category, since in one way or another they have an economic undertone. However, we will here be concerned mainly with enterprises that are created to directly generate economic development.
The lack of indigenous capital and commercial knowledge among the developing countries led to a situation where the public enterprise became the most important instrument for promoting economic development (Klaus, IDS OP NO. 39, 1982). As such, on the attainment of independence, public enterprises were seen as a way of bringing the Africans a bigger share of the economy. The proliferation and role of public enterprises in developing countries is aptly put by Mohammed in his observation that:

"With the well known vicious circle of poverty in poor nations, the rate of capital formation is too slow. To speed up development, therefore, it often becomes necessary for the government to step in and generate capital formation directly. This often calls for the involvement of the public sector in directly productive activities at least in the initial stages of development. This happened in Russia and Japan" (Mohammed, 1970:20).

In concurrence with Klaus and Mohammed is Fabrikant who submits that,

"--- state enterprises are established to break economic stranglehold imposed by a former colonial master and the private companies operated by its nationals. Moreover, the withdrawal of colonial regimes often leaves the ex-colony with a distorted and 'dependent' economy and an insufficient number of indigenous business enterprises to stimulate economic activity" (Fabrikant, 1976:198).

Ramanadhan, who sees the emergence of public enterprises as coinciding with the initial stages of industrialization and modern economic development, asserts that governments "have felt that they had little choice" (Ramanadhan, 1984:21) in creating public enterprises. That "only through large investment outlays by public authorities will it be possible to achieve the goals of industrialization" (Ramanadhan, 1984:10). This unfortunate situation as explained by Fabrikant has been exacerbated by the
fact that, "many of the private enterprises controlled by the nationals of the withdrawing colonial power often retrench their operations in the emergent nation due to their lack of confidence in the political stability in the indigenous regime" (Fabrikant, 1976:198).

As a result, public enterprises are the only development organs through which the developing countries could acquire capital for the necessary infrastructure. Therefore, "governments establish public enterprises in the form of joint ventures with outside agencies for the provision of the much needed capital" (Qurashi, 1980:21). In the same way, Douglas Verney observes that public enterprises are created as "a means of attracting foreign capital and of ensuring its control by the state" (Verney, 1959:8). On this, Rweyemamu remarks that government intervention in the economic sector is "necessary where there is need to obtain international finance --- because it is the government which can give assurances required to attract outside capital (Rweyemamu, 1975:234). Friedmann takes this point further when he notes that "some public enterprises meet the wishes of foreign sources of capital, technical assistance and trade. These sources may wish their grants to be handled directly by a corporation, on which they can be represented, rather than by a government department" (Friedmann, 1970:270). Therefore, "joint ventures provide foreign investors with a feeling of security of their investment and profit making activities" (Wanjohi, 1980: 209). They also seem to offer a "guarantee for the enterprises future" (Hanson, 1959: 351).
A joint venture describes an enterprise through which a government enters into partnership with private owners of capital. Friedmann defines joint venture as:

"a substantial part of whose capital is privately subscribed, which is constituted as a company --- in which the government itself, a public corporation or a local authority has a substantial financial interest of a permanent character, coupled with the ability to exercise a measure of internal control either by way of voting power conferred by the ownership of the shares or by the possession of a right to nominate directors or both" (Friedmann, 1970: 56).

In India, the Hindustan Steel Company was established by the Indian Government in cooperation with the German firm of Krupps-Demag. While in Turkey, the Turkish Denizcilik Bank is a joint venture between the Turkish Government and four banks: one public, one semi-public and the other two (holding very small amounts) private (Hanson, 1959:352-353). In Indonesia, foreign banks wishing to establish merchant banks are permitted to do so only in conjunction with and as partners of state owned commercial banks (Fabrikant, 1976).

Joint ventures are not an exclusive monopoly of the developing world only. For example, British joint ventures include, among others, the Upper Clyde Shipbuilders, British Sugar Corporation Limited, Agricultural Mortgage Corporation Limited, Scotland Agricultural Securities Limited, Suez Finance Company Limited and the International Computers (Holdings) Limited (Friedmann, 1970:57).

A government may create public enterprises as monopolies for the purpose of earning additional revenue. Rweyemamu observes that "government intervention or participation is necessary in
profitable enterprises like mining, in order to acquire a large share of the profit accruing from the enterprise for wider national development" (Rweyemamu, 1975:234). This view is supported by Vratusa who points out that the aim of establishing public enterprises is to obtain a high degree of concentration of available resources for putting the national economy on sound foundations and a speedier economic, social and cultural developments of the country (Vratusa, 1985). Hence, the reasons for public enterprises are "to gain control of the commanding heights of the economy and to provide commercial surpluses with which to finance further economic development" (Dias, 1976:54).

Therefore, public enterprises are expected to be efficient organizations which are able to generate profit. For example, in Britain, one of the important motive for Labour Party's nationalization policy of 1945-50 was economic: "that the government should obtain control of the industries most vital to the economy" (Coombes, 1971:21). Hence, "in centrally planned economies, public enterprises may be operated on the basis of maximum profits so as to become the source of finance for further economic development" (Dias, 1976:47).

Further, in Indonesia, in the late 1950's, President Sukarno "seized upon the concept of public enterprises as a vehicle for promoting economic development. By proliferating state corporations throughout the economy, with each enterprise having exclusive jurisdiction over a key economic sector, he hoped that economic development would unfold with unparalleled rapidity"
Though Sukarno was later removed from power by a military regime in 1966, his was an idea of utilising public enterprises for their ability to generate profit.

In Africa, public enterprises have also been established for the purpose of generating profit. In Zambia for example, all mining companies have been in the public sector since 1st January, 1970 (Zambia, 1979).

Regional Development Authorities are also created with the aim of increasing economic development in an area. The existence of regional imbalances within national territories is a world-wide phenomenon, both in developed and developing countries. As such, regional development policies generally attempt to attack inherited inequalities by mobilizing potentially valuable productive resources in order to increase national economic growth (Public Enterprise, Vol. 5 No. 4, 1985). Therefore, the aims of public enterprises are "economic development where there are imbalances between different parts of a country, or different sectors, or lack of vigour on the part of the private enterprise" (Dias, 1976: 53).

Among the developed countries, one of the earliest and most well known regional authorities is the Cassa per il Mezzogiorno in Italy which was designed to develop the "backward" South (Public Enterprise, Vol. 5 No. 4, 1985; Bohm, 1985). In the United States, the Tenessee Valley Authority (T.V.A.), established in 1933 was created with the sole aim of "--- developing integrated plans to conceive and safeguard the prudent use of waters, waterpower, soils, forests, and other resources of the areas ---" (Hanson,
Many developing countries have adopted Regional Development Authorities for integrated development of their undeveloped areas. For example, the Laguna Lake Development Authority and the South Philippines Development Activity in the Philippines and SUDENE and CVG (Venezuela Guyana Corporation in Venezuela) were created with the aim of developing the infrastructure of the regions, as well as of playing a planning and promotional role to induce economic activities (Public Enterprise, Vol. 5, No. 4, 1985). Also in India, there is the Damodar Valley Scheme which was created to control the River Damodar floods and to provide power and irrigation waters to the States of West Bengal and Bihar (Hanson, 1959:159, 310-312).

Public Finance Institutions, including Development Banks and public enterprise Commercial Banks are also established sometimes with the aim of playing a role in regional development. (Public Enterprise, Vol. 5, No. 4, 1985). Thus, countries not only transfer financial resources to the regions through direct budgetary allocations but also through the operation of these banks.

Therefore, public enterprises may arise from the government's desire to build an integrated national economy and to stimulate balanced regional development throughout the country.
2.2.3 Defence and Strategic Considerations

The question of national security is central in each government if it has to safeguard and maintain its sovereignty. As a result, governments have established certain public enterprises solely because some projects are of national security and cannot be left to the private sector.

It is with this in mind that Amara makes the observation that "the public sector may also undertake projects which are considered to be of strategic nature and projects which, by necessity and for national considerations, should be injected in the traditional sector of the economy" (Amara, 1976:3). Amara's observation concurs with Friedmann's who states that "defence needs have been paramount in the creation of publicly controlled and directed atomic commissions, characteristically one of the few recent examples of Government federal enterprise in the United States" (Friedmann, 1970:304). Also, Bismarch's nationalization of the Germany railway was mainly due to national security considerations (Ramanadhan, 1984).

In India, we find that, the 1948 Industrial Policy Statement "created an exclusive Central Government monopoly as regards the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport" (Dias, 1976:51, Ramanadhan, 1984). The policy document also stated that "the government shall have the power to take over any industry vital for national defence" (Hanson, 1959:156).
In Indonesia, the Central government, through the state companies owns and operates all transportation, communications and utility installations in the country (Fabrikant, 1976). From Africa, we find that in Zambia, road, rail and air communications, the electricity generating and supply industry are all within the parastatal sphere (Zambia, 1979).

Therefore, in most countries, coal, iron and steel, postal services, shipping manufacture, railways, and telegraphs are all government monopolies. This is because, left to the private sector, there is the risk of political sabotage. Hence, the question of national security over-rides.

A further stimulus for the creation of public enterprises has come from the demand for Government intervention in times of severe economic depressions and drought. As a result of the effect of these national calamities on the economy, the Government is compelled to create public enterprises as a means for future safeguards, hence a strategic consideration. For example, in the U.S.A, the Tennessee River Valley Authority is to a great extent a creation of the great depression (Einaudi, 1955). The great depression, a natural calamity, affected Britain and "resulted in the establishment of a number of series of agricultural marketing Boards in the country" (Friedmann, 1970:304).

The great depression also had severe repercussions in Italy. Italy's fascist regime had borrowed loans from the U.S. and now with the depression, the Lira (Italy's currency) was forced up by about 40% in just between August 1926 and May 1927.
In a bid to control the simmering inflation, the government of Italy nationalized the three major banking institutions in the country in 1933. These were the Banca Commerciale Italiana, the Credito Italiano and the Banco di Roma. The nationalization was not motivated by any political ideology but was indirectly due to the great depression in the U.S. and subsequently the inflation in Italy (Einaudi, 1955:195-197).

2.2.4 Political Philosophy

Political/ideological motives have been a major justification in the creation of public enterprises. Political philosophy here refers to the ideological and racial reasons that have motivated both developed and developing countries to establish public enterprises. These political and racial ideologies are "usually an expression of a political philosophy which demands the public control of the basic industries as well as certain other enterprises" (Friedmann, 1970:305). The practical form that these ideologies result in is one of nationalization with full, partial or no compensation at all to the private entrepreneur for the value of the nationalized enterprise (Balog, 1966).

Political philosophy, in this context, has its base mainly in the writings of Karl Marx and those who accept the Marxian perspective in its call for centralization of all instruments of production in the hands of the state (Marx, 1958). Kelf-Cohen takes us a step further in his observation that "--- the modern
belief in public ownership is the result of the industrial revolution and the doctrine of laissez-faire which went with it. The tremendous social upheaval, which followed, gave rise to socialism, and a fundamental doctrine of socialism in the public ownership of means of production, distribution and consumption" (Kelf-Cohen, 1958:1).

Einaudi makes a further observation that "since the end of World War II, governments have, to an increasing extent, accepted the premise that in order to achieve certain vital aims of public policy, it was necessary to place not only control, but outright ownership of economic assets in public hands" (Einaudi, 1955:4). Therefore, public enterprises have been "used to displace private enterprises, either through nationalization of specific private enterprises or through the preemption of certain sectors of the economy as the exclusive domain of public enterprise" (Dias, 1976:51).

In Britain, when the Labour Party with its socialist principles came to power (1945-50), it nationalized steel, coal, gas, electricity supply, inland transport industries and air corporation (Einaudi, 1955; Kelf-Cohen, 1958; Verney, 1959; Coombes, 1971). Therefore, Britain's nationalization policies "were strongly influenced by syndicalist ideas of workers' control" of the economy (Coombes, 1971: 19). Also in Russia, "--- the seizure of political power by the Bolsheviks led to totalitarian economic and agricultural planning" (Einaudi, 1955:15).

Nationalization in France is linked to World War II. The War,
with its dual experience of victory and Nazi occupation, was a bitter reminder to the Frenchmen of the shackles of bureaucratic controls that existed during the War period. Hence, the end of the War brought to the Frenchmen who had suffered through it, "the strength of an ideal political renovation which could only be found in nationalization" (Einaudi, 1955:33-34). Coombes concurs with Einaudi in his observation that nationalization in France "was a response to social pressure for a change in the control of industry, and a reserve operation for undertakings either nationally important or technically backward or both" (Coombes, 1971:216) Therefore, nationalization in France was "necessary for a rational reorganization" (Einaudi, 1955:77).

Many Third World Countries have also established public enterprises as a result of political/ideological considerations. Fabrikant observes that "apart from being the creature of policy decisions, many, if not most, state companies throughout the Third World owe their existence to the historical accident of nationalization" (Fabrikant, 1976:198). The major reason being that, after political independence, many countries saw the need to demonstrate, not only to the rest of the world, but particularly to their own citizens, that they were capable of obtaining economic independence as well (Leys, 1971; Rweyemamu, 1975). Therefore, in most of these countries, the major political argument behind the creation of public enterprises was that it would assure the ordinary people that they now controlled their own economy since these enterprises would be owned by the government. The assurance
was necessary if the new political masters were going to get the political support that they so badly needed if they were going to stay in power.

In Indonesia, "nationalization of all private Dutch businesses in 1958 brought under government control enterprises that were operating in all areas of industry and commerce as well as enterprises engaged in providing public service and utilities. Even the smallest private enterprises, local businesses in sales service, were nationalized" (Prasetya, 1976:152). Therefore, in Indonesia, racial motivations against the local Dutch business community, nationalistic and ideological considerations led to the ousting of foreign (principally ex-colonial) private investors and public aid donors. Thus, "many of Indonesia's state enterprises are lineal descendants of private companies controlled by Dutch interests" (Fabrikant, 1976:200).

Nellis observes that most African countries got support for independence from socialist movements and thereby African governments became influenced by the success stories offered by socialist models in terms of political unification and rapid industrialization (Nellis, 1986). Hence, with the adoption of socialist principles, most countries carried out nationalizations of key economic sectors at independence.

Most notable in this respect is Tanzania. In Tanzania, political independence was followed by a clear definition of a political ideology embodied in the Arusha Declaration of 1967, which defined a socialist strategy for development (Mwapachu,
The Arusha Declaration holds it that,

"--- in order to build and to maintain socialism, it is essential that all major means of production and exchange in the Nation be controlled and owned by the peasants through the machinery of their government and their cooperatives" (Mtiga, 1972:1).

Therefore, in 1968, Tanzania nationalized banks, insurance, trading and industrial companies (Bradley, 1970). The nationalization in Tanzania was a deliberate move to break the monopoly of the commercial sector by a small group of capitalists, most of whom were not citizens of the country (Mtiga, 1972). However, it was mainly a way to achieve economic independence from foreign companies and to direct the course of development by controlling key economic sectors (Oyugi, IDS OP No. 39. 1982; Shirley, 1983). Hence, the move was motivated by both racial and ideological considerations and was aimed at ensuring economic independence and consequently political stability.

Like Tanzania, Somalia, in gaining independence in 1960, found herself a poor country with negligible investments since the colonial government had completely neglected to develop her. With the economy in disarray, Somalia adopted a socialist path of development and instituted the "Scientific Socialism" in 1970. As a result, between 1970-72, Somalia nationalized or confiscated many foreign and locally-owned businesses (ICPE Country Studies, 1984). Somalia's move was entirely political and was aimed at ensuring economic sovereignty of the country.

Other countries in Africa that have carried out nationalizations due to ideological or racial considerations
include Uganda, Madagascar and Algeria among others. In Uganda, the **Common Man's Charter** and the **Move to the left** restricted the operations of foreign banks and partially nationalized eighty-five international companies (Daily Nation, September 23, 1989). In Madagascar, we find that when President Admiral Ratsiraka seized power in 1975, he nationalized banks and industries thereby ushering in his brand of socialism (Daily Nation, May 14, 1990). Further, Algeria, on gaining independence (1962) under Ahmed Ben Bella, immediately passed laws which nationalized among other things, "the private enterprises --- under which the workers took control of abandoned business and factories" (Causey, 1984:159).

The creation of public enterprises on account of political philosophy consideration is then widespread in both the developed and developing countries especially in those countries which at one time or another had socialistic tendencies. The main motivation that has come out in all the cases is that all these countries have seen public enterprises as "instruments increasing indigenous participation in commerce and industry, thereby enhancing political stability" (Rweyemamu, 1970:234).

2.3. **Forms of Public Enterprises**

Having looked at the justifications of public enterprises, we now turn to the issue of **classification**. This is important in analysing the management of a public enterprise like K.M.C. It is expected that the form would somehow have an effect
on the management styles and consequently on the performance.

Different authors have classified public enterprises in different ways depending on what they want to explain. Peter Wanyande (1981) does a functional classification of public enterprises and comes up with four forms. The first form is the Marketing Boards whose duties are to control, regulate and export agricultural products. They also help to control/stabilize agricultural prices at both domestic and international levels. The second form is the Finance Corporations and Banks which are established to provide loans and credit facilities. The third form is the State Trading Corporations whose main function is to assist in the distribution of consumer goods that are controlled by the state. The last form is the Development Authorities which are assigned broad economic objectives geared to national integration. Under this category are the Regional Development Authorities.

Shako (1978) has classified public enterprises into five forms. His classification is very closely related to Wanyande's as they both agree on three forms. His first form is the Financial Enterprises which is similar to Wanyande's Financial Corporations. However, it is broader in that it encompasses not only financial institutions but all those enterprises which are expected to compete and show profit. The second form is the Marketing Corporations which, like Wanyande's Marketing Boards, control, regulate and export agricultural products. His third form is the Production Corporations. These are engaged in actual production of goods. The fourth form is the Regulatory Bodies which is similar.
to Wanyande's State Trading Corporations. These enterprises are established as monopolies and are created for the purpose of establishing state control. The last form is the Consultative and Advisory Bodies, and which, as the name implies, offer consultancy and advisory services.

Barbara Grosh (1988) classifies public enterprises into four forms which are based on various sectors of the economy. The first form is the Agricultural Sector. The structure and the mission of these enterprises is similar. They are all trading and marketing enterprises and none engages in agriculture directly; all purchase agricultural products from farmers and groups of farmers. Each transports, stores, processes and markets the produce of thousands of farmers. This form is similar to Wanyande's Marketing Boards and Shako's Marketing Corporations. Also like the latter two, Grosh has a classification on financial institutions which she refers to as the Financial Sector. Moreover, like Wanyande's, the enterprises under this category accept deposits from the public and which they reloan to borrowers. The form also includes non-depository financial institutions. The third form is the Development Financial Institutions. These enterprises share the goal of fostering development of one or more sectors of the economy. However, they primarily foster development in the private sector. Lastly, she has the Infrastructural parastatals. These enterprises provide transport, communications and electricity.

Rweyemamu (1975) has three forms. His first classification is the Business Organizations. This is similar to
all the above three classifications on financial institutions. However, Rweyemamu's, like Shako's, is more broader and includes all those enterprises which are expected to compete and show profit. Like Grosh, Rweyemamu has Infrastructure Organizations. These enterprises undertake to provide the basic services needed by the nation to develop. However, unlike Grosh's, the enterprises may or may not generate profit depending on their assigned functions and objectives. The third form is the Service Organizations. These are expected to deliver services to the public and are not expected to make any profit.

The above analysis has established that there is no agreed form of classification of public enterprises. However, it has shown that, despite the differences, there are close similarities. Therefore, the study surmises that the form of classification is subject to what the author wants to explain.

The question which now arises is whether there is any relation between performance and classification of public enterprises.

Having shown that there is no consensus between various authors, it is difficult to conclusively argue that there is indeed a relationship between the two as classification is only directly related to function. Thus, a particular public enterprise will be classified differently from another depending on the functions and objectives assigned. Then, this being the case, the next logical question becomes: are some functions more difficult to perform than others? It is quite possible that the answer to this question
is "Yes", in which case there might be a relationship between classification and performance.

2.4 Organizational Types

Various public enterprises are organised differently depending mainly on their legislative provisions. The manner in which a public enterprise is organized is very important and "should not be unimaginatively copied or moulded to fit certain dogmatic assumptions (Hanson, 1959:377). This is because, the effectiveness of a certain organizational type will depend on a country's level of economic development. Hanson further submits that "an up-to-date administrative technique --- is closely related to a particular economic, social and political situation, and cannot be bodily superimposed on one of fundamentally different quality" (Hanson, 1959:366). Concurring with Hanson, Dias also warns that, the "form chosen must be appropriate to the characteristics of the industry concerned and compatible with its special operating requirements. It must also be sensitive to a blend of commercial and non-commercial objectives of the specific enterprise" (Dias, 1976:65).

Hanson has given four organizational types, namely; the Departmental Management, the Public Corporation, the State Company, and the Operating Contract. Other authors (Prakash, 1962; Dias, 1976; Klaus, IDS WP No. 370, 1979; Wanyande, 1981; Heidermann, IDS OP No. 39. 1982; Oyugi, IDS OP No. 39, 1982) have written on
organizational types. However, most of them borrow heavily from Hanson. Dias, while agreeing with Hanson on the four organizational types, adds an extra two types. Though this is the case, the two, Quasi-Corporations and Mixed Corporations (Heidermann, IDS OP No. 39, 1982), are nothing new but just slight modifications of Departmental Management and Public Corporation respectively.

2.4.1 Departmental Management

The departmental management is the oldest form of operating public enterprises, both in the developed and developing countries. Enterprises under this system are owned and managed as extensions of government ministries. Under this pattern, the enterprise is a strictly hierarchical institution at whose head is a minister answerable to the cabinet and to parliament for its activities. Its finance, audit controls, staff remuneration and the enterprise autonomy is similar to any other government department (Hanson, 1959; Dias, 1976; Wanyande, 1981; Oyugi, IDS OP No. 39, 1982).

The merits of this form of organization lie in its ensuring full governmental control and responsibility. "Moreover, the enterprise is subjected to close and continuous ministerial direction, and as such, there is little risk of misuse of public funds" (Dias, 1976:57). It also maintains a clear relationship with other parts of the government structure.
The disadvantages of this form lie in its excessive control, which tends to stifle flexibility, initiation, and swift decision making. Hanson observes that for an industrial or commercial enterprise, this type "tends to raise the power of government to the maximum, and to reduce initiative and flexibility to the minimum" (Hanson, 1959:338). He, however, notes that it all depends upon the extent to which the two (initiative and flexibility) are needed for the effective operation of the enterprise concerned. On the whole, this organizational type is not suitable for commercially oriented enterprises. It should only be adopted by those organizations whose activities are of a routine nature.

2.4.2 Public Corporation

The public corporation is the most highly regarded of all non-departmental organizations in both the developed and developing countries. Public corporations have developed as an empirical response to organizational needs, whereby they attempt to strike a balance between autonomy and control. Dias observes that the public corporation "--- is clothed with the power of government but possessed of the initiative and flexibility of private enterprise" (Dias, 1976:59).

The public corporation is wholly owned by the state and is created by an Act of Parliament (or Presidential decrees ) which defines its powers, duties and immunities (Dias, 1976; Klaus, IDS
WP No. 370, 1979; Oyugi, IDS OP No. 39, 1982). It has a legal personality and can sue and be sued in its own name. Its employees are not civil servants and are remunerated under terms and conditions which the corporation itself determines. Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed (Hanson, 1959; Dias, 1976).

The public corporation is intended to meet the traditional objections to departmental management of economic undertakings and is designed to eliminate delays, red tape and excessive regard for precedents. On the whole, therefore, it creates a suitable legal framework for the efficient conduct of business requiring some degree of initiative and enterprise on the part of its management.

2.4.3 State Company

The state company is established under the ordinary company law of the country concerned. The government owns not less than 51% or more of the share capital (Prakash, 1962; Klaus, IDS WP No. 370, 1979; Wanyande, 1981; Oyugi, IDS OP No. 39, 1982). Where members of the public furnish any part of the capital, the enterprise may be termed a mixed enterprise (Dias, 1976; Heidermann, IDS OP No. 39, 1982).

The state company is particularly useful in developing countries for obtaining foreign or local financial capital (Prakash, 1962). The state company may be adopted for various
reasons. One, the government may wish to acquire shares of an existing enterprise in an emergency or to take over a nationally important industry. Secondly, the government may wish to launch an enterprise in association with national or foreign interests, and thirdly, the government may wish to start an enterprise purely as a public venture in order to ensure its proper launching (Hanson, 1959; Dias, 1976).

The state company has the following principal characteristics: the capital stock of the company is owned either exclusively or predominantly by the government; and for all practical purposes it has all the characteristics, rights, and obligations of private enterprise set up in the joint-stock company form (Hanson, 1959; Dias, 1976).

The state company provides considerable flexibility and freedom of action on the part of management. It establishes separate identity as a commercial body and thereby furnishes the opportunity to adopt and adhere to commercial practices.

2.4.4 Operating Contract

This system involves state ownership and private operation or management. Under this system, the government enters into contract with an established private company for management of a public enterprise and agrees to reimburse the contractor for all costs that he incurs and to compensate him by a fixed fee for his services. The contractor is given a lot of operating freedom. He
has full powers to employ and dismiss personnel, determine the rates of remuneration, purchases and equipment, and to determine the operating policies of the enterprise to a large extent in the same way as he would if it were a subsidiary of his private company (Hanson, 1959; Dias, 1976; Wanyande, 1981).

Though the operating contract is referred to as an organizational type (Hanson, 1959; Dias, 1976; Wanyande, 1981), it is more of a management arrangement that can be applied to any of the other organizational type but more so to a public corporation or a state company.

Of importance to note from the above organizational types is that, no single organizational type is linked to public enterprise efficiency. Hanson clearly states that "practically every known type of public enterprise is to be found working well in some circumstances and badly in others, and it is extremely difficult to say to what extent the performance of a particular enterprise has been affected by the form that the political authorities have given it ---" (Hanson, 1959:337). Dias is in total agreement with Hanson. He too makes the observation that, "no one form of organization is capable of being the best for administration of public enterprises. All organizations should have as their government measure of reference a sufficient definition of purpose. The form of the organization should be such as to be adaptable in accordance with changes in the purpose" (Dias, 1976:65). Therefore, the performance of public enterprises is not totally tied to the organizational type of the specific public enterprise.
However, where initiative and flexibility are needed for the efficiency of the enterprise concerned, the public corporation, the state company and the operating contract are more closely linked to performance.

Having seen that we cannot tie public enterprise performance to justification, form or organizational type: what then is directly related to performance?

2.5 Management of Public Enterprises

Management is central in any analysis of public enterprise. Irrespective of the justification, the institutional form and the organizational type, the enterprise has to be managed. The way it is managed will decide whether the enterprise is a good or a bad performer.

Good management should enable the public enterprise to participate more efficiently in the process of economic development of the country and should help to solve the actual problems and inadequacies that resulted in its establishment (Hanson, 1959; Rweyemamu, 1975). However, the manner in which public enterprises are managed has generally made this impossible with the result that public enterprises all over have become a resource drain on the Exchequer. Hence, their poor performance has generated a lot of concern to both the government and the public of the respective countries.
The performance of public enterprises has been a problem in both developing and developed countries alike. However, the situation is more critical in the developing countries in view of the fact that management takes place in conditions of continuing scarce resources and manifold constraints originated by domestic and international developments (Vratusa, 1985). This is as a result of the inherited economic underdevelopment, lack of financial resources and an absence of trained workforce (Sessional Paper No. 10, 1965; Rweyemamu, 1975; Vratusa, 1985).

In the recent past, there has been a growing concern in most countries about the poor performance of public enterprises. This is quite disturbing taking into account that performance continues to deteriorate in the face of control mechanisms instituted by respective governments. This is all happening in spite of the fact that a great deal of government funds have been invested in these enterprises. But instead of generating revenue for reinvestment within the enterprise itself or elsewhere else, the enterprises continue asking for government grants every other time (Nellis, 1986). This trend then makes public enterprises to be important borrowers, not only domestically but also internationally. As a result, one can assert that public enterprise external debts are a significant factor in the growing foreign debt of the developing countries. Hence, in many cases, they are adding to rather than resolving economic problems.

The general opinion, therefore, is that the poor aggregate performance of public enterprises is as a result of the way they
are managed: poorly. For example, in Nepal, reviews of public enterprises carried out under government sponsorship have consistently shown poor management as the main cause of the unsatisfactory performance (Mathur, 1984). In Tanzania, between 1976 and 1979, one third of all public enterprises ran losses, while in Benin, more that 60% of all public enterprises showed net losses and more than half declared negative working capital (Nellis, 1986). In this regard, there is a growing awareness that the management of public enterprises should be improved so that they can become efficient vehicles of growth as originally anticipated. This applies to Kenya as shown in the next Chapter.

2.5.1 Salient Explanations

In analysing the management of public enterprises and consequently the performance, different authors have focussed on a number of variables that have directly affected the performance of these enterprises. These include:

i) Objectives of Public Enterprises;

ii) Control of Public Enterprises;

iii) Composition of Boards of Public Enterprises;

iv) Staffing of Public Enterprises; and

v) Monopolistic Nature of Public Enterprises.
2.5.1.1 Objectives of Public Enterprises

The performance of public enterprises has been affected by the nature of the objectives. When established, every public enterprise is given a set of objectives which it is expected to meet and which act as a guideline to its operation.

However, most of these objectives are usually unclear and contradictory and thereby impossible to achieve (Coombes, 1971; Kreacic, 1985; Nellis, 1986). This unclarity makes the management to pursue its own objectives vis-a-vis the stipulated ones. Moreover, an enterprise might pursue social objectives (unprofitable policies) at the expense of commercial objectives or vice versa and in both cases it is termed as a bad performer. This issue is further complicated by the fact that, due to the nature of a public enterprise, it cannot limit itself only to commercial efficiency but has also to respond to the larger social goals: these being one of the major instruments of social policy (Shirley, 1983; Vratusa, 1985). A few examples will illustrate this phenomenon.

The unclarity and the social nature of the objectives is a phenomenon to be found in both the developed and developing states. In Britain, "the BOAC have complained from time to time that they have been obliged to buy British Aircraft in the national interest. Sometimes the Coal Board has had to delay closure of its pits longer than it would normally choose on account of a government's policy of regional unemployment" (Coombes, 1971:36).
Benin also operated her public enterprises under a contradiction of both social and commercial goals. In 1983, Benin's textile plant suffered reversal, when Nigeria, its major export market closed its border to printed textile imports. Though the Benin Government was unable to find an alternative market for its textile, the plant continued operating as before since it could not close the plant and lay off the staff (Nellis, 1986). Therefore, the government's social policy of providing employment and hence political stability contradicted and over-rode the commercial orientation of the plant: to make profit by selling its products. This resulted in the plant continuing to make a stream of losses. This is then a managerial problem which calls for the clarity and prioritization of objectives.

Vague objectives can lead to the pursuit of a multiplicity of things, all in the name of objectives. For example, the law establishing the Development Corporation in Tanzania says that "the business of the corporation shall be to facilitate and promote the economic development of Tanzania" (Rweyemamu, 1975: 241). Similarly, a wide range of tasks of public enterprises may be demonstrated by the example of Uganda Development Corporation, which is expected to fulfill the following functions/tasks: "coordination of the activities of public enterprises, advice to the relevant minister, providing reasonable prices and services including managerial services, providing foreign exchange, assist companies in long-term planning, giving financial advice by carrying out control and providing licences for import and export"
(Atikiro, IDS OP No.39, 1982: 85-86). No wonder the corporation is unable to know which particular objectives it is expected to maximize on.

On formulation of objectives, Dias makes the observation that, "it is important on the standpoint of effective management that each public enterprise receive the clearest possible reference and that the range of objectives be arranged in some clear order of priority" (Dias, 1976:53). Therefore, there is need to make the objectives clear and if possible to prioritize them (Shirley, 1983; Greacic, 1985; Kreacic, 1985). This is because, where public enterprises are expected to pursue both commercial and social goals and to answer to many different constituencies, their performance suffers unless they are given a clear sense of priorities. Failure to that, their results cannot be measured against expectations, and losses can easily be attributed to social goals, and hence, poor management is thereby concealed (Shirley, 1983; Greacic, 1985). Moreover, since some social objectives might be inevitable, it is important that the social objectives performed be compensated for by the government and methods be designed to measure the degree of achievement of these objectives (Heidermann, IDS OP No.39, 1982; Shirley, 1983; Nellis, 1983). In addition, for accountability purposes, this compensation should be immediate.
2.5.1.2 Control of Public Enterprises

Control can be looked at as something that is essentially procedural in that it focuses on the means through which a public enterprise is monitored and guided by the government. According to Bokhari, control is "the 'steering wheel' or the 'short rein' which keeps the activities of the enterprise from wondering away from their primary objectives ---" (Bokhari, 1985:363). Control is therefore "the process of analysing whether actions are being taken as planned and taking corrective actions to make these conform to planning. --- control --- tries to find out deviations between planned performance and actual performance and to suggest corrective actions, wherever these are needed" (Prasad, 1984:521).

The importance of control over public enterprises should be seen in the light of the fact that it is public money which is invested in these enterprises. Since the government is ultimately accountable to the public, which is the tax-payer, for the efficiency, propriety and regularity of the actions in the public enterprises, it has to effect control over them. Therefore, the government has to remain fully aware of the justification, propriety and regularity of actions and has to intervene and provide "timely guidance" the moment things go off-course. Amara, who is in support of control is of the opinion that,

" --- in the absence of effective control over public corporations, a government cannot mobilize fully and assure maximum utilization of all available resources for financing economic development and channel its limited resources into enterprises which will best contribute to the accomplishment of national development goals" (Amara, 1976:5).
As a result, the objective of control is to stop an undesirable situation from developing. It is aimed at ensuring that the management does "not exceed the powers and authority delegated to it and that it functions within the broad framework of policy guidelines given to it from time to time" (Bokhari, 1985:365).

On the other hand, when these controls (by parent ministries, Boards of management, politicians, etc) exceed certain limits under the guise of protecting the enterprise, they become constraints and strike at the very roots of the justification for creating public enterprises. In this connection, Amara submits that "--- there is always the danger that control may be exercised to such an extent as to deprive the corporation of its autonomy and hence reduce its flexibility and efficiency" (Amara, 1976:5). This has been supported by Hanson who asserts that, "the corporation, being an organ of the government, cannot in the last resort, defend its autonomy against a government determined to bring it under the harrow ---" (Hanson 1959:343).

From the foregoing, it can be deduced that when there is too much control, control as a management tool ceases, and intervention begins. In fact, the current situation especially in the developing world, is one where governments do not effect control over public enterprises. What they do is exercise massive intervention. This massive intervention renders the management to be tools of the government, thereby losing managerial control (grip) of the public enterprise. This then results in a decline in
the autonomy of the enterprise and in the end the public enterprise is left hanging loosely in the air as neither the management nor the government is actually effecting control. The end result is cumulative losses and heavy government subsidies from the national Treasuries.

However, it should here be noted that so long as an enterprise is in the public sector, it has to be subjected to a measure of governmental control. How this control is organized is perhaps the crucial issue. If it is organised in such a way as to give the public enterprise uncoordinated advice, then it is negative. Ideally, there should be organized control so as "to monitor performance and to take main decisions on investment and debt" (Shirley, 1983:22). On the other hand, the government should note that some decisions, like the hiring and firing of staff, staff remuneration, day-to-day management, etc. are the prerogative of the management and that government interference would in most cases be expected to have a negative effect on the performance of the public enterprise (Shirley, 1983).

The government should therefore strive to strike a balance between control and autonomy of the public enterprise. The autonomy of a public enterprise is of crucial importance. If too much autonomy is given, it may give rise to negative tendencies like different forms of abuse of authority (Vratusa, 1985). If too little is given, it would result in laxity and an end to the publicness of the enterprise.
2.5.1.3 Composition of Boards of Public Enterprises

The Boards of Management of public enterprises are one of the control instruments used by government to monitor the management and hence the performance of public enterprises. It has, however, been observed that, in some cases, Boards have a negative effect on the management of public enterprises. This is the reason why this study has decided to dwell on it among the many other external control agents.

Once a public enterprise has been established, the task of running it falls on the Board of Management. The Board is appointed by the Minister of the parent Ministry concerned. It is then through the Board that the parent Ministry controls the running of a specific public enterprise. According to Klaus, the Board's duty is,

"to set goals for the overall policy of the enterprise according to the directives of the parent Ministry. It (the Board) functions as a link pin between the government and the enterprise. It is the place where the government should explain its policies and how far it expects the enterprise to support and implement them" (Klaus, IDS WP No. 372, 1980:12).

Such a Board is normally composed of people who are experts in various fields but more specifically in the enterprise's area of operation. Such that, if it is a commercial oriented enterprise, the Board members should be people versed in commercial knowledge. This would then give rise to a functional Board which is ideal in the management of public enterprises.

However, in practice, this is rarely the case. To begin with, the common practise is that,
"the Board members serve at the pleasure of the Minister who can remove them at will without giving any reason. To retain positions they must go all the way to please the Minister, or his representatives. In the circumstances, they cannot take independent positions" (Oyugi, IDS OP No. 39, 1982:68).

Secondly, "the management tends to manipulate the Board by withholding relevant and critical decision premises upon which the Board can make 'rational' decisions (Oyugi, IDS OP No. 39, 1982:68).

Thirdly, the Board members are of poor educational background and have little business experience. Here, Hanson reminds us that "in most undeveloped (developing) countries, there is an extreme shortage of administrative and managerial talent, with the result that many of the Board members are -- below the level of their responsibilities" (Hanson, 1959:373).

Fourthly, the Board members lack the time and devotion required of them. For example in Sudan,

"The Boards consist of part-time members including ex-officio members representing appropriate government departments. The rate of turnover of the ex-officio is relatively high with the result that they scarcely have time to gain practical knowledge of the problems of the corporation in question. Experience indicates that these members, in the performance of their dual roles, have more allegiance to their departments than to the public enterprise" (Amara, 1976:20).

Such a Board can then have little guidance to give on the public enterprise. Shirley sees such a Board as an extra load on the management since it has to be educated first on the role of the public enterprise in question. As a result, "the company's Executive Director must spend a lot of time educating new inexperienced Board members and overcoming tendencies toward risk aversion and inertia" (Shirley, 1983:25).
Lastly, it can be said of these Boards, especially in the developing countries, that they are all representative Boards. This is because there is a lot of political patronage that takes place in the appointment of the members, with those in power appeasing ex-military officers, party officials and former Members of Parliament (Amara, 1976; Wanyande, 1981; Kreacic, 1985).

Therefore, these representative Boards, being very strong due to their political backing but lacking any business experience, erodes the autonomy of the management and the enterprise itself. The end result of this intervention is inefficiency and poor performance of the public enterprise. Hanson makes the observation that "managers are unable to give their best while virtually all administrative authority is retained by the Ministry (through the Board). Inevitably, the very decisions for which their skill and judgement were sought are made for them by government officials instead" (Hanson, 1959:378). Shirley concurs with Hanson that too much control by the Boards is defective in that it leaves the managers with no autonomy to run the public enterprise (Shirley, 1983). In the end, "many developing countries have discovered, to their cost, that to use a Board as a dumping ground for political drop-outs or as a convenient avenue of semi-retirement is both to court disaster and to vitiate the entire justification for having a Board at all" (Zambia, 1979:32).

In a report by a Committee appointed to review the emoluments and conditions of service of state-owned enterprises in Zambia, the Committee touched on the issue of political patronage.
It felt that there is

"no substitute for competence, reliability, imagination and the ability to contribute constructively to the business at hand. No hint of nepotism - family, tribal or political - should be allowed to enter into the making of Board appointments nor should Board membership ever be conferred as a reward for past services if it is not even more a challenge to greater service in the future" (Zambia, 1979:30).

The Committee further maintained that appointments to the Board should be made in a manner that "the objective criteria of ability and integrity be universally accepted as the sure guide to Board appointments and that these should be made with continuity of office also very much in mind" (Zambia, 1979:30).

Vladmir Kreacic gives a good over-view of what is needed to make the management steer the public enterprise to greater heights. According to Kreacic, public enterprises need to attend to the management of their internal affairs and devote less time reacting to the external control agencies. Done this way, the governments themselves will get better value from their public enterprises as they allow and even encourage the autonomy of the enterprises as against the needs for concerned Ministries (Kreacic, 1985).

2.5.1.4 **Staffing of Public Enterprises**

The personnel issue is central to the management of any enterprise. Staff members are the core of any organization. Therefore, the way they are recruited, remunerated, given role prescriptions and motivated has a lot to do with the success or failure of the enterprise.
On recruitment, the way the staff members are hired might negate sound recruitment policies. Often politics finds its way into staffing as people with little business acumen are hired into the enterprises. Shirley observes that,

"in many developing countries, top executives of public enterprises are recruited from the civil service or the military. These individuals lack the necessary skills to run a commercial venture and may even identify more closely with their former bureaucracy than with the enterprise" (Shirley, 1983:49).

This shows that the appointment policies of many governments have stressed political loyalty over operational skills (Nellis, 1986). In Sudan, for example, military officers demobilized from the armed forces for political reasons were recruited as field inspectors in the Gezira Irrigation Scheme (Amara, 1976). As a result, such cadres naturally tend to reflect negative practices prevailing in the civil service: excessive routine and precedents, lack of initiative and creativity, etc. These traits are also to be found amongst staff working in a public enterprise that has been transformed from a government department. In this case, all of them portray the "civil service mentality" (Wanyande, 1981).

Most countries have unified civil service and public enterprises forms of service, remunerations and even procedures. However, the civil service procedures are not compatible with commercial operations (Nellis, 1986). Dias observes that, "if the law prescribes that the budgetary and accounting methods of the enterprise shall be the same as that used in governments or that its staff shall be subject to the normal civil service regulations, it is unlikely that even the most able management will produce good
results "---" (Dias, 1976:158). This is more likely to happen in Departmental Management. Therefore, due to the low civil service salaries, a public enterprise will then have "great difficulty in attracting staff of the calibre it requires". Also, "in its present financial situation it cannot adequately compete with other sectors (private) of the economy" (Zambia, 1979:22). Moreover, the low salaries are inappropriate for public enterprises as they tend to deter qualified personnel and increase their rate of turnover. In Turkey, for example, salaries in public enterprises averaged one third those of private sector in 1981. While in Benin, public enterprise salaries are so low that it is an allowed practice for managers to take other jobs to earn a sufficient income (Shirley, 1983). Therefore, public enterprises should pay competitive salaries equal to those offered in the private sector in order to be able to attract professionals from the labour market and to retain them.

The employees are also affected by the poor or unclear demarcation and allocation of duties and responsibilities. This leads to confusion regarding who in the organization is responsible for what, hence role ambiguity (Miner, 1983). Therefore, Hanson argues that, "not only do individual officers not possess authority commensurate with their responsibilities; the responsibilities themselves are insufficiently defined" (Hanson, 1959:414).

All members should be motivated to work collectively to contribute to the efficiency and positive results of a public enterprise as a whole. To achieve this end, there should be an
active involvement of all members of the enterprise in the decision making process (Vratusa, 1985). We find that, since it is the management and its decisions which is responsible for the success or failure of the enterprise, there is "need for an integrated decision making that takes into account the views of all the participants both from within and outside the corporation's environment" (Klaus, IDS WP No. 372, 1980:15). This is because, "people are more likely to commit themselves to what they help to create" (Kreacic, 1985:390). They see it as theirs rather than as foreign or alien. However, this is rarely the practice in public enterprises. Employees are never involved in decision making. To them decisions are made from above, and as Hanson puts it, this is even above the management level:

"as managers have no clear policy criteria to guide their day-to-day decisions, they are afraid to exercise initiative, for fear that their superiors will disapprove of what they have done. Responsibility for each decision, therefore, is pushed up to the highest possible point, with the result that the hierarchical levels which according to management principles should concentrate on policy making and controlling, are clogged with masses of problems of minor importance" (Hanson, 1959:413).

Institutional success is often attributed to the presence of a "good manager". Competent staff are no doubt essential for any efficient enterprise. But they, as noted above, do not operate in a vacuum. They need incentives to attract and motivate them (Shirley, 1983). As Alaya observes, there is need to reward the staff with proper incentives so as to motivate them to perform well. This does not only involve remunerations above the civil service scales, but also bonus and promotion in line with the job
done (Alaya, 1985). In fact, Shirley observes that, "some of the most effective rewards are nonpecuniary - recognition, greater responsibility, promotion, and national honours. Autonomy can also be a strong incentive to the enterprise managers" (Shirley, 1983:45).

Public enterprises all over the world have been used as a source of providing employment, to the extent that they are grossly overstaffed. One finds that most of the staff, for example, are appointed as part of the government policy of mass employment of educated manpower (Public Enterprise, Vol. 5 (1) 1984). This then leads to poor utilization of the employed staff due to lack of an adequate work distribution, a non-existent job description and high expenses. Shirley observes that "SOEs are often used to expand employment, and thus are also responsible for overstaffing, which tends to lower morale and run up excessive wage bills that earn damage on SOE financial position" (Shirley, 1983:19).

Cases of overstaffing are numerous. In 1984, the British Airways had to lay off 24,000 members of staff. In 1990, Nigeria Airways laid off 4,000 workers (Daily Nation, April 20, 1990). Also, a World Bank Study estimated that a West African Agricultural Marketing Board had 3,000 employees in excess of reasonable requirements (Nellis, 1986). This is so despite the fact that the public enterprises are often capital intensive and therefore, can only make a limited contribution to alleviating employment. To make matters worse, the overstaffing is done amid complaints from public enterprise officials that they are unable to suspend, fire
or even sanction in any meaningful way their large and costly workforce (Nellis, 1986).

2.5.1.5 Monopolistic Nature of Public Enterprises

As noted earlier, governments usually establish public enterprises as monopolies in order to benefit fully from the accruing profit. They do so by giving these enterprises wide powers of operation and protection against any form of competition. It has, however, been found that the monopolistic control of the public enterprises has in many cases resulted in the enterprises' negative performance.

One, the monopolistic nature of the public enterprises results in the laxity of the managers. This is because, the monopolistic position of the enterprises shields them from the rigours of competition (ICIPE Country Studies, 1984). In support of this, Nellis observes that these monopolistic enterprises lack the efficient enhancing pressure of competition (Nellis, 1986). There is then the need to introduce competition in the market since "efficiency is greatest when an enterprise strives to maximize profit in a competitive market (Shirley, 1983). Thus, management and the nature of the market are arguably linked.

Secondly, due to the inevitable government social policies, the government creates monopolistic enterprises through which it is able to control the pricing of various products. In essence, these enterprises are made to be price takers with no control whatsoever.
of the pricing of various products. Therefore, by Government controlling the prices for materials, products or services rendered, this leads to great inefficiencies in resource allocation, large operating losses, reduced financial responsibility and accountability, and increased dependence of public enterprises on government subsidies (Nellis, 1986). Shirley also attributes low SOE profit to controlled prices (Shirley, 1983). The situation is even worse in cases of price fluctuation of raw materials, such that, by lacking any control over their products, their financial positions are adversely affected (Wanyande, 1981).

Therefore, the best way to end monopoly is to introduce competition and allow market pricing. One way to encourage competition is to split large public monopolies into small operating units, especially if the monopoly did not benefit from economies of scale. "In Hungary, for example, at least 130 new firms were so established since 1980" (Shirley, 1983:43).

Another way to encourage competition is by reducing tariffs and eliminating import quotas, and thereby to force industries to compete with imports. Peru did this and some of her public enterprises adopted to competition but others were severely hampered by excess manpower and government imposed activities or constraints. However, in all the cases, "competition increased the pressure for better performance and helped to clarify the costs of keeping inefficient producers alive and of meeting non-commercial goals" (Shirley, 1983:43).
Some countries have even allowed public enterprises to compete with private enterprises. In Sweden, "two of the Trading Agencies compete with private undertakings and many of the state companies are faced by considerable private competition" (Verney, 1959:13-14). In Indonesia, "public enterprises, either in the form of state companies or public corporations, must openly compete with their private counterparts without any special protection or priority --- competition between private and public enterprises results in greater stabilization in prices" (Dias, 1976:154).

On the whole, for competition to be effective in promoting efficiency, managers must be given discretion to respond to competitive pressure, which may mean reducing staff or ending unprofitable services. Moreover, these measures must be accompanied by pricing freedom. Privileged public access to subsidised credit and input should also be ended, otherwise these might be a strong bias toward capital-intensive investment.

Therefore, exposing public enterprises to competition can be a simple and effective way to promote their efficiency, and if managers are required to pursue non-commercial goals for political or social reasons, competition will help to improve the efficiency of delivering the services.

2.6 Divestiture as Final Managerial Solution

Proliferation of public enterprises has taken place all over the World, but more so in the developing countries. The increase
has been necessitated by among others, poor feasibility studies and the widespread use of the public enterprise as an answer to any economic or social problem, to the extent that they have become the order of the day, especially so in Sub-Saharan Africa.

Nellis observes that some public enterprises were established out of poor feasibility studies and hence should not have been started at all (Nellis, 1986). The reason might have been that a private sector might have wanted to sell the plant and equipment. Four examples below illustrate the presence of many "while elephants" public enterprises in Africa.

In Zambia, the Report of the Committee appointed to review the endowments and conditions of service of the public sector gave the following findings:

"It has struck us throughout our enquiries that insufficient consideration has often been accorded in Zambia to the reasons for setting up parastatal organizations and, in consequence, the number of parastatals is ordinately large. The larger the sector, the large, quite obviously, the problems of balance --" (Zambia, 1979:13).

Second, the Big Shoe Factory in Kumasi, Ghana, illustrates both the lack of proper pre-investment survey and political siting. Proper feasibility studies would have revealed that there was not enough leather in Kumasi to support the industry and that as most of the raw materials had to be imported, the best site would have been at the Coast.

Third, the losses incurred by the Western Nigerian Canning Factory were also due to inadequate surveying. After the factory had been established and a full complement of European managers and technicians had been assembled, it was discovered that there was
Finally, one of the reasons for the failure of one fishery project in Uganda was failure to conduct market research. After going into operation, it was found that the fish caught had to be sent to Congo for sale. The local population could not eat the fish because they were believed to affect the fertility of the women (Rweyemamu, 1975). Therefore, lack of and poor feasibility studies led to the establishment and the consequent collapse of these public enterprises.

In line with this, we find that some countries tend to create public enterprises indiscriminately as an answer to any pressing economic or social problem. Amara submits that "some less developed countries, in the belief that the public corporation is the cure for all administrative diseases, have used them indiscriminately and have assigned almost every economic function that the government has undertaken to a corporation ---" (Amara, 1976:4). As a result, " --- there is a temptation to any government --- to create a parastatal organization whenever a bothersome problem raises its head and to pass to that organization the task of dealing with it" (Zambia, 1979:14). For example, in many of the South and Central America, "--- the public corporation luxuriates. In some of them, practically every new economic function that the government is assigned, ad hoc, to a corporation ---" (Hanson, 1959:348). Hence, "parastatals - like computers - tend to become the fashion for their own sakes rather than for the services and flexibility which, under the right conditions, they
can provide" (Zambia, 1979:29). The end result is that "--- the task of coordinating and directing the activities of the growing multitude of so-called independent agencies among which the economic responsibilities of government are fragmented becomes beyond anyone's capacity" (Hanson, 1959:348).

With the poorly planned proliferation of public enterprises, the respective governments are then unable to give any direction or control with the result that the enterprises continue accumulating losses. Hence, the enterprises can no longer stand on their own. They therefore turn parasitic, instead of being parastatals. They can only survive on government subsidies. But this cannot go on forever. Therefore, what is the solution?

One way to solve this perennial problem of inefficiency is to liquidate the enterprises concerned. Liquidation involves winding up the operations of the enterprise and then selling its assets. Shirley observes that inefficient enterprises should be allowed to go bankrupt and be liquidated (Shirley, 1983). As such, there is no need for governments to continue subsidizing loss making enterprises, instead, governments should stop doing so and then sell the assets.

Advocates for liquidation have stated that liquidation reduces unjustified government intervention, that it gives the government the flexibility to put resources to more productive uses, and that it saves the economy from the burden of nonviable enterprises (Shirley, 1983; Nellis, 1986). This is because "the costs of keeping nonviable enterprises alive are considerable:
fiscally draining, administratively demanding, and wasteful of potentially productive resources" (Shirley, 1983:54). For example, in Peru, a freeze-drying plant owned by the state was built without adequate study of the market or sufficient skilled staff to operate and maintain the equipment. The supply of raw materials was erratic because of the company's failure to plan its procedures carefully or to pay promptly for delivery. From the start, the firm's production costs exceeded its revenues. It was shut down and reopened on several occasions. Finally, in 1980, and after fifteen years of losses, liquidation procedures began (Shirley, 1983:54).

In deciding whether to liquidate, the government needs to determine whether the financial and economic costs of operating the public enterprise outweigh the benefits. However, because of the financial and social consequences, governments are reluctant to let big firms close. In Somalia, for example, there is the question of nonviable public enterprises which continue to make losses but which cannot be liquidated because of the huge investments that went into them and also because of their employment value (Public Enterprise, Vol. 5(1), 1984). However, one finds that most governments are beginning to make determined decisions to close some of their public enterprises. In a sample of 15 Sub-Saharan Countries, Nellis found that there were 88 closures and liquidations between 1978 and 1983 (Nellis, 1986). Also since 1980, Cote de Voire has closed sixteen public enterprises and Brazil liquidated ten in 1982 (Shirley, 1983).
The other way of solving the problem of continued inefficiency of public enterprises is to privatise them. Privatization involves denationalizing a previously nationalized enterprise and putting it back into the private hands. It also involves making private a previous public enterprise by way of selling the controlling shares to the public or even all the shares.

Nellis observes that governments should divest themselves of inefficient public enterprises. That they should sell to the private sector those enterprises which can be sold, and for those which cannot be sold, close them permanently and liquidate their assets (Nellis, 1986). Therefore, he sees no need to revitalise the loss-making enterprises, rather they should all be privatised.

Like liquidation, privatization can produce important net gains to society when costs of public operation outweigh the benefits. It is also likely to be easier to ensure genuine competition among private firms and to reduce unjustified government intervention. Privatization could also allow the state to concentrate on the most pressing activities that only the government can pursue.

Nonetheless, privatization has been hard to implement. First, there is the fear of renationalization and concern about extensive government regulation of former public enterprises: public enterprises are grossly overstaffed and there might be strict regulations on redundancy. Second, governments try to sell their loss-making enterprises hence there are few willing buyers. Third,
the absence of a strong capital market especially in the developing countries deprives the latter of an important forum for mobilizing resources. Since many public enterprises are large, or the government may wish to sell a number of smaller enterprises, domestic investors may not be able to raise enough capital to buy them. Fourth, a government may be unable to sell since a public enterprise may be highly visible or in a politically sensitive area. Lastly, there is the political problem of who to sell to.

However, there are several ways to overcome these difficulties. First, efforts could be made to develop the stock market and schemes that appeal to small savers through their pension funds. This way, it could make it easier for governments to divest. Second, spreading ownership more widely and divesting only gradually could improve the chances of privatization, and might even reduce the political controversy involved. Third, a sale to many small shareholders might make a realistically low price more acceptable. Lastly, leasing can also be a promising route to divestiture: a private manager might be brought in to run a potentially profitable enterprise for a share of the profit and an option to buy.

As a result, one finds that the number and importance of the enterprises sold are not large. It is only in Japan, where, after an initial attempt to promote industrialization through public enterprises, "the government in the 1880's sold a large number of public enterprises including fifty-two factories, ten mines and three shipyards" (Shirley, 1983:56). The British
government, under Mrs. Margaret Thatcher, privatized a number of the loss-making public enterprises. In the developing world, privatization has also been carried out or is being attempted by a number of countries. In Pakistan, the Pakistan Peoples Party, under Ms. Benazir Bhutto, planned to move away from its socialist policies of the 1970's and to privatize some of the major industries and banks that were nationalized by her father in one night in 1972 (Daily Nation, Sept. 24, 1989). Brazil, which created a Commission for divestiture in 1981, had by mid-1982, "privatized ten enterprises and had plans to sell another thirty-six" (Shirley, 1983:59).

In Chile, the Formento undertook some fairly extensive "selling out" operations. In Puerto Rico, the plants of the Industrial Development Company were all sold to private enterprise in 1950. In Columbia, the tyre-manufacturing concern, Industria Colombiana de Lantras, in which the Colombian Institute of Industrial Development originally held 72.6% of the shares, was completely disposed of. In Ceylon, following the Report of The Commission on Government Commercial Undertakings, it was proposed to convert certain departmentally managed industrial undertakings into public order, not only to secure more efficient management, but to enable the issue of shares in these undertakings to the public, so that the state might eventually withdraw from participating in them (Hanson, 1959: 352-353).

According to Nellis, the state is a poor entrepreneur, hence, it should not only privatize the loss-making public enterprises but
also the profitable enterprises since it could even earn a higher return outside of public ownership (Nellis, 1986). Therefore, governments should not try to rehabilitate their loss-making public enterprises but should instead either liquidate them and sell the assets or privatize them outrightly.

Regardless of how one looks at it or how governments proceed to do it, liquidation and privatization are, in essence, a final managerial solution to poor performance, unless of course they are undertaken for purely ideological reasons which have little to do with performance.

2.7 Summary: Performance of Public Enterprises

This Chapter has looked at the "Justification", "Forms", "Types", and the "Management" of public enterprises all over the World. The discussion opened by tracing the historical evolution of public enterprises vis-a-vis two contending schools of thought: the Marxist and the Anti-Marxist School.

Though a creation of pre-World War II period, it is after the War that the World over has turned to public enterprises as an answer to their social and economic problems. The need to establish public enterprises has been motivated by practical necessity, economic development, defence and strategic considerations, and political philosophy.

On classification of public enterprises, the study has found that different authors have classified public enterprises
differently, depending on what they want to explain. As such, there is no agreed form of classification of public enterprises, though close similarities abound. Therefore, there might not be a relation between classification and public enterprise performance, unless one is prepared to argue that some functions are inherently more difficult to perform than others.

Public enterprises are to be found in various organizational types: Departmental Management, Public Corporation, State Company and the Operating Contract. No particular organizational type guarantees public enterprise efficiency. Therefore, like the form of classification, the organizational type is not directly related to performance, though where initiative and flexibility are needed for efficiency, the Public Corporation, the State Company and the Operating Contract are more closely related to performance than the Departmental Management.

Since the performance of public enterprises is generally poor, what then is directly related to performance? Various authors contend that, the nature of the objectives, the control effected on the enterprises, the composition of Boards of Management, staffing and the issue of competition has much to do with the performance of public enterprises. However, the best way to assess performance is to look at the performance of the Management Functions described in Chapter One and analysed in Chapters Four and Five.

Having identified the direct causes of the poor performance, and their inevitability, the literature proposes that the only
managerial solution to the poor performance is either to improve the management, which is unlikely to happen, or for governments to divest themselves of all investments in the public sector, profitable ones included since they could be even more profitable under private ownership, thus increasing the overall social wealth.
CHAPTER THREE

PUBLIC ENTERPRISES IN KENYA

3.1 Introduction

In Kenya, like in many other countries in the World, the public enterprise has become a vehicle for both economic and social development through which a lot of public funds are channelled. As a result, the government has extensively utilized public enterprises in all the spheres of the economy to the extent that there are currently about 150 public enterprises (Finance Magazine, 16-31 May 1990). This number is very high when one takes into account that the country had only about fifteen public enterprises at the time of independence in June, 1963.

Public enterprises in Kenya are established by Acts of Parliament. The President may also, by order, establish a state corporation as a body corporate to perform the functions specified in that order. Thus established, a state corporation shall, (a) have perpetual succession, (b) in its corporate name be capable of suing and being sued, and (c) be capable of holding and alienating movable and immovable property (State Corporations Act, 1986 Cap. 446, 1972).

The history of establishment of public enterprises in Kenya dates back to the colonial period, more specifically to the establishment of settler agriculture. As it is well known, the colonial settlers took up farming in the prime agricultural areas
which came later to be referred to as the white highlands. By so doing, they alienated the Africans from their ancestral land and converted them from independent peasants into peasants dependent on agricultural wage labour which was necessary in order to be able to pay the numerous taxes instituted by the colonial government. "By 1937, the amount of land 'reserved' for European alienation plus land deemed 'suitable' for alienation to Europeans totalled 119,357 square kilometers (29.5 million acres) whereas the amount of land in Native Reserves totalled only 124,768 square kilometers (30.8 million acres), despite the fact that Europeans comprised less than one percent of the population and Africans almost 98 percent of the population" (Jorgensen, 1975: 147; Ng'ethe, IDS WP No. 284, 1976).

Moreover, in an end to remove any form of competition, the Africans were prohibited from growing cash crops, among other crops.

Therefore, since commercial agriculture was the mainstay of the colonial economy and a monopoly of the settlers, the public enterprises that emerged were not only agricultural oriented, but also served the interests of the settlers. Colin Leys observes that, colonial public enterprises were geared to the service of the settler economy and in particular the interests of the settlers (Leys, 1975). Accordingly, "a good number of them were agricultural, marketing and regulatory boards; and they came to prominence just before and after the Second World War" (Oyugi, IDS OP No. 39, 1982:62).

The existence of these public enterprises was triggered by the way the settlers managed their farms " which were extremely large -
an average of over 2,400 acres per 'occupier' in 1932" (Leys, 1975:29). But at first, they had neither the knowledge nor the capital to farm it very differently from the Africans. As a result, the farms were inefficiently managed and consequently not profitable at all. Moreover, the only available credit institutions were the British Commercial and Merchant Banks together with a few private money-lenders (Van Zwanenberg, 1975). These institutions advanced loans on short terms and at high interest rates. The settlers, therefore, were usually heavily in debt. To rescue the settler economy, there was then the need for cheap and easy finance capital to develop their farms, and in the words of the then (1931) colonial Governor, Sir Edward Grigg:

"The end of private enterprises --- is for many reasons now in sight and the state must definitely step in if not only farming is to prosper, but the financial stability of both the colonial Government and the Railway is to be assured. The economic position of the colony as a whole now turns on this necessity" (Van Zwanenberg, 1975:24).

Hence, after much pressure from the settler farmers, the Land and Agricultural Bank of Kenya, which we can claim to be the first public enterprise in Kenya, was established. Its main objective was to provide the settlers with long term loans at low interest rates. "It was therefore a mechanism to secure and retain the privileged position of settlers in the colonial agricultural economy" (Leys, 1975:65).

The Land and Agricultural Bank of Kenya continued to be the leading agricultural finance institution throughout the colonial period until 1969 when it was reorganized and renamed the
Agricultural Finance Corporation (AFC). Other public enterprises of financial nature were established by the Colonial State to facilitate in the provision of finance to the settler farmers. Notable among these were the Cereals and Sugar Finance Corporation (CSFC) and the Special Crop Development Authority (SCDA). C.S.F.C. was established in 1955 to provide finance to sugar-cane growers and other specific cereals, i.e. maize, while the S.C.D.A, established in 1960, was required to raise funds from international sources for the development of special crops. It, however, tended to concentrate on the development of tea and it is no wonder that the corporation was the predecessor of Kenya Tea Development Authority (Wanyande, 1981).

With all these financial institutions geared to promoting the colonial economy, and in particular, the settler agricultural sector, there was a high increase, not only in the number of the settler farmers, but also in the acreages under plantations and the volume of food produced. Therefore, in order to market their products, the settlers created several agricultural and marketing boards. Taking into account that the Africans had been legally prohibited from growing cash crops, the agricultural and marketing boards simply added to settler farmers' protection both in production and sale or distribution of agricultural commodities.

In 1950, the colonial government established the Kenya Meat Commission by an Act of Parliament. K.M.C. was created to operate as a monopoly over the purchase of cattle and smallstock slaughter, processing and marketing of beef products in the country and at the
international market (Laws of Kenya, Cap. 363, 1972). The Commission was to regulate the prices of beef-related products. It was mainly intended to buy livestock from the European mixed farms and cattle ranches, hence the branches in Nakuru and Eldoret (the Eldoret branch was closed in 1968). In fact, Athi River, where the main factory is located, was surrounded by settler cattle ranches. K.M.C. is discussed in detail in the next two Chapters.

The Cotton Lint and Marketing Board was set up in 1954 to stabilise cotton prices and to improve the marketing of the crop. The Board is the predecessor of the Cotton Board of Kenya. Further, in 1958, the colonial government established the Kenya Dairy Board to regulate, organise and to control the marketing and improvement of the quality of milk and other daily products.

The colonial government was very reluctant to establish any manufacturing enterprise in the colony terming them as an exclusive of the private sector, or more accurately, in our view, as an exclusive of the metropolitan private sector. The Government, therefore, relied on importations from the metropolis. As a result, before World War II, the colony had to import manufactured goods from the colonial powers while she exported raw materials, mainly agricultural products, to the same. As Jorgensen observes: "During the colonial phase, the structure of the domestic economy was transformed to produce agricultural goods needed by the economy" (Jorgensen, 1975:144).

However, after the Second World War, the idea of public manufacturing enterprises took more root. According to Swainson,
the "doctrine of public corporation was sold to the colonies by the Colonial Office, and each territorial government after the war was at liberty to establish its own public corporations --" (Swainson, IDS WP No. 275, 1976:7). Notwithstanding, the colonial government was more concerned with the administration of the colony, and for its (colony's) industrialization, it was trying to woo private investors, especially from Britain, to come and invest.

Comparatively, few public enterprises in general were established by the colonial government in Kenya. Not that they were not necessary, but as would be expected, "the colonial government normally promoted development in those areas that best served its own interests" (Singh, 1976:251).

Appendix I, column one, gives a chronology of public enterprises in Kenya, not exhaustive, established between 1946 and 1991. A tabulation of the column gives the following data.

Table 3.1 Public Enterprises Established in Kenya

<table>
<thead>
<tr>
<th>YEARS</th>
<th>NUMBER OF PUBLIC ENTERPRISES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940 - 1949</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1950 - 1959</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>1960 - 1969</td>
<td>25</td>
<td>33</td>
</tr>
<tr>
<td>1970 - 1979</td>
<td>24</td>
<td>31</td>
</tr>
<tr>
<td>1980 - 1989</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>1990 - 1991</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>77</td>
<td>100</td>
</tr>
</tbody>
</table>
From the Table, the colonial government established only 9 public enterprises in the twenty year period. This represents only 12% of the total number of public enterprises in Kenya. Therefore, and as noted earlier, the colonial government established very few public enterprises and just to serve their settler interests.

However, 33% of the total public enterprises were established between 1960 and 1969. Two things which are directly responsible for the increase took place during this period. The first and the major one is that, in 1963 Kenya became independent. Secondly, the Sessional Paper No.10 on *African Socialism and Its Application to planning in Kenya* (1965), recommended direct participation of the government in the economy. Therefore, lacking capital, the necessary manpower and managerial know-how, public enterprises were the only means of intervention.

The establishment of public enterprises continued unabated in the following decade (1970-1979) to account for 31% of the total public enterprises in the country. The Government was still following the recommendations of the Sessional Paper No.10 of 1965. In addition, with the break-up of the East African Community in 1976, the Government had to establish its own enterprises which before-hand were jointly owned. Hence, the public enterprises established as a result of the break-up of the Community include, Kenya Railways Corporation, Kenya Airways, Kenya Posts and Telecommunications Corporation, Kenya Ports Authority and Kenya Medical Research Institute, among others.
In the 1980-89 decade, public enterprises established decreased to an extent that only 18% of the total public enterprises were established. By this time, the government had established an "adequate" number of public enterprises. However, in the latter part of the decade, the World Bank and the International Monetary Fund insisted on certain Structural Adjustment Programmes. In relation to the public sector, they emphasised for less direct government involvement in the economy and thereby called for privatization of public enterprises. In fact, most of the public enterprises formed during the period can be directly linked to President Moi, who, having taken power in 1978, took certain populist policies in various sectors in an endeavour to entrench his foothold. Hence, the Kenyatta University College, Moi University College, Egerton University College, Investment Promotion Centre, Consolidated Bank of Kenya, Nyayo Tea Zones and the Nyayo Bus Corporation were established, among others.

In the light of the Structural Adjustment Programmes and the Government's willingness to privatise public enterprises, viz, The Parastatal Reform Committee, the 6% in the 1990/91 period is a true testimony of the decreasing importance of public enterprises, not only in Kenya, but in the World over.

3.2 Motives for the Establishment of Public Enterprises

As has been shown in the preceding section, the use of Public enterprises by the colonial government was minimal and was
simply to service the settler interests in particular and the settler economy in general. Public enterprises, therefore, were certainly not inspired by the need to serve the African majority. It is therefore not surprising that with independence, the Kenya government came to widely use the public enterprise as a commonplace instrument for implementing its policies, and this time for the welfare of its clientele - the citizens of the new state.

In Kenya, public enterprises have been established for generally the same reasons as they have been established in other parts of the World. The reasons, as would be expected, overlap. To recapitulate, these are:

i) Practical Necessity;
ii) Economic Development;
iii) Defence and Strategic Considerations; and
iv) Political Philosophy.

3.2.1 Practical Necessity

At independence, Kenya found herself wanting in many ways. Her economy was largely underdeveloped and the few commercial activities available were in the hands of foreigners, a good number of most of whom left on the attainment of political independence. The country also lacked any indigenous capital that could be used to achieve the economic development that it aspired to embark on. Moreover, she lacked the manpower and the know-how for the necessary mobilization of resources. However, control of the
country's natural and human resources was necessary if the country was to achieve the socio-economic development which it had fought for. Moreover, a viable socio-economic development was necessary if the nationals were to be reassured that the political and economic control of the country was in their hands.

Therefore, lacking capital, manpower and the managerial know-how, the most open option for the country was public enterprises. According to Okuthe-Oyugi, "for reasons of practicability, public enterprises turned out to be the most practical means to undertake certain public ventures" (Okuthe-Oyugi, IDS WP No. 390, 1982:4). This is because, the public enterprise could be used to attract the scarce capital available, create employment and also act as a training ground for the necessary management skills. In fact, as early as 1945, the Royal Commission of East Africa had noted what was amiss in Kenya's industrial development:

"Here we submit that the difficulties which stand in the way of direct African participation in the field of industry are not primarily financial, but proceed from a lack of skill and experience --- it is on the removal of this deficiency that a public policy anxious to promote African participation in new development should concentrate" (Swainson, IDS WP No.275, 1976:13).

Therefore, public enterprises were intended to develop the necessary management skills partly through the participation of foreign capital.

As noted in Chapter Two, public enterprises also arise from the realization that national development cannot be realized by relying on the private sector alone since it is weak and does not
necessarily come forward to invest in sectors to which the government accords priority (Mathur, 1984). This is because the private sector is usually unwilling to commit huge amounts of money to projects which do not yield quick and attractive return for investment. Therefore, the State, out of practical necessity, is forced to invest in projects in which the private sector is unlikely to invest, but which in the final analysis contribute to national development. In this connection, public enterprises such as the Kenya Railways, Kenya Power and Lighting Company Limited, Regional Authorities, Kenya Pipeline Corporation, etc are notable examples. At independence, the Sessional Paper No.10 on African Socialism and Its Application to Planning in Kenya noted the beneficial impact of such investments and hence the need for the state to commit its capital. The paper observed that:

"Some basic industries regarded as fundamental to industrial development will have Government participation. This is so because many of the beneficial effects of important industries, such as their contribution to foreign exchange, labour training, and the relief of unemployment are not given their contribution full weight in purely commercial consideration" (Sessional Paper No. 10, 1965:43).

In fact, most of our public enterprises have been used to achieve government's social objective of employment. The consequences of doing so are discussed elsewhere in this study.

The government has also established public enterprises because they are considered to be more efficient than ministerial departments (Bradley, 1970). For one, they possess a legal personality. Secondly, their affairs, at least in theory, are managed by an independent board though the latter is appointed by
the government to whom it is responsible through the parent ministry (Hanson, 1959; Dias, 1976). Such units can then be useful when government is lacking efficiency. This is probably the reason behind the creation of the National Irrigation Board in 1966 when the Ministry of Agriculture could not efficiently manage irrigation projects (Bradley, 1970; Okuthe-Oyugi, IDS WP No. 390, 1982).

Further, the elevation of government departments to autonomous public enterprises such as Kenyatta National Hospital Board in 1987 and National Hospital Insurance Fund in 1988, could be seen as practical necessity to inject accountability and hence efficiency. Moreover, according to the Managing Trustee of the National Social Security Fund, "the parastatal has greatly improved its performance since ... January, 1988" and "the operational problems for which N.S.S.F. was being heavily criticized were no longer there" (Daily Nation, June 18, 1990). N.S.S.F. was previously a government department in the Ministry of Labour. Therefore, "public enterprises have been selected as a device for administering state enterprises --- with a view to overcoming the problems of red-tape, routine, and cumbersomeness which characterize conventional government departments" (Amara, 1976:17). As a result, public enterprises can be seen to be a practical remedy to bureaucracy.

The recent establishment of the Nyayo Bus Service Corporation, apart from its role of popularizing the Moi (Nyayo) government, can be seen as a practical necessity in the sense that, during its establishment, it was supposed to ease the commuter
transportation problem in the urban areas where the Kenya Bus Services and the "Matatus" were found to be inadequate. The inadequacy in the latter two was mainly demonstrated in separate incidents when they refused to operate thereby making it impossible for the workers to report to work, hence, a threat to the economy of the country.

In this respect, the creation of Nyayo Bus Service Corporation, populist motives aside, was out of practical necessity for the 'welfare' of the city commuters. Further, the establishment of public enterprises such as the Kenya National Library Services and the National Housing Corporation, etc can be seen as a resultant of the weakness of local authorities to provide social and cultural services.

The Kenya government, has out of practical necessity been forced to take-over ailing private businesses that are on the verge of collapse. The enterprises taken over are those which are of national importance to the economy, and hence, due to their essential and crucial role (in the economy), the government is forced to take them over. This is done with the intention of selling the shares to the public once the ailing enterprise has re-established itself and the market is favourable.

In 1966, the government took over the operations of the ailing Kenya National Transport Cooperative (Kenatco) Society Limited. Kenatco had been founded by a group of owner-operated taxi proprietors who had decided to venture into the competitive transport industry in 1964. Kenatco operated a fleet of taxis and
However, in 1966, after experiencing considerable expansion, Kenatco was confronted with problems due to lack of back-up services, technical know-how, financial advice, and competent management and was therefore threatened with liquidation by its creditors. As a result, the government, through the Industrial and Commercial Development Corporation (I.C.D.C.), took over the crippled cooperative society and formed Kenatco (Kenya National Transport Corporation) Taxis Limited, a subsidiary of I.C.D.C. "The taking over was in order to regulate and control the rates of goods and passenger freights as well as to provide a safe and reliable mode of transport. It was also meant to Africanise the transport system which was by then dominated by Europeans and Asians" (Grosh, 1988:311). However, Kenatco was put under receivership in 1983.

In 1989, the government took over several banks and financial institutions and named the whole conglomeration; the Consolidated Bank of Kenya. Those taken over included the Rural Urban and Credit Finance Ltd, Continental Bank of Kenya Ltd, Continental Credit Finance Ltd, Home-Loans Building Society, Jimba Credit Finance, Union Bank and Home Savings and Mortgage Ltd. The following year, five more banking institutions were absorbed by the Bank, namely Nationwide Finance Company Ltd, Estate Building Society, Estate Finance Company and Business Finance (The Weekly Review March 8, 1991). These banks and financial institutions had been struck by a wave of indebtedness that had swept through the financial sector in 1986. The indebtedness had been caused by
imprudent lending policies and low capitalization. It was further alleged that, the proprietors of these institutions, who were the first generation of Africans to go into big banking business, ignored the fact that the new banking institutions needed more capital than older institutions to cushion their operations from the effect of bad loans.

In May 1990, the government took over the running of the troubled Miwani Sugar Mills, then a private company. The company had been under receivership since 1988 when it failed to meet its obligations to three debenture holders: Bank of Baroda, Chase Manhattan Bank and Finnsugar of Finland (Daily Nation, May 3, 1990). Moreover, the take-over was also geared to increase the production of sugar in the country in an end to save the country's foreign exchange.

Public enterprises have therefore been established out of practical necessity, whereby the government is forced by the prevailing circumstances to establish public enterprises which the private sector is unwilling due to the huge capital investments involved and also the low profit returns. Moreover, the government is also forced to take over private enterprises that are on the verge of collapse in order to sustain the economy.
3.2.2 Economic Development

On attaining independence, Kenya inherited an economy that was dominated in every aspect by the expatriates and foreign concerns. Major financial institutions such as commercial banks and insurance companies were foreign owned and controlled. Agriculture, the mainstay of Kenya's economy, was also dominated by the settler farmers who controlled large tracks of land. The settler farmers were responsible for the production and primary processing of all export crops. Industrial enterprises were also controlled by the multinational companies and expatriate concerns. Import-export trade as well as retail and distributive trade were controlled in a like manner. In the circumstances, something had to be done in the immediate post-independence period. Thus, public enterprises through which the nationals would Africanize and control the economy, were deemed necessary. These enterprises were therefore "established primarily to gain state (or national) control over key economic sectors thought vital for national development and sovereignty" (Okuthe-Oyugi, IDS WP No.390, 1982:6).

The lack of indigenous capital and managerial expertise at independence resulted in the country establishing joint ventures with outside sources of capital. Joint ventures would not only make the scarce capital available, but would also necessitate the training of African managers in an on-the-job training basis as they worked with the expatriate managers. "Joint ventures with private capital would give the state a large measure of control and
at the same time conserve the limited capital available to the state (Sessional Paper No. 10, 1965:15). Colin Leys observes that "joint ventures with foreign private capital could give the government control over investments without having to finance them fully itself" (Leys, 1975:31). Moreover, joint ventures also have the dual role of assuring and gaining the confidence of the foreign investors and at the same time making the Kenyans feel that they are participating in the economic development of their country when they are appointed to senior positions in the organizations. Hence in Kenya, the Industrial and Commercial Development Corporation, Industrial Development Bank, General Motors and the Associated Vehicle Assemblers Limited, among others, were founded and largely funded by foreign capital.

Hans Klaus observes that public enterprises in Kenya have been established with the aim of promoting private land ownership and land use for agricultural purposes by granting loans, training and consulting farmers (Klaus, IDS WP No. 372, 1980). As a result, there are various public enterprises whose functions are to procure funds in order to enable individuals to establish, maintain, or increase private firms, establish enterprises in the field of agriculture, retail, manufacturing, wholesale and tourism. In this connection, Industrial and Commercial Development Corporation (ICDC), National Construction Corporation (N.C.C.), Kenya National Trading Corporation (KNTC), Agricultural Finance Corporation (AFC), and Development Finance Corporation of Kenya (DFCK) have respectively to be mentioned.
The government has also established public enterprises in order to benefit from the accruing profit. These firms also bring to the government foreign exchange from their export earnings. Most of these enterprises are monopolies which are accorded a lot of protection by the government and expected to operate as commercial enterprises in order to generate profit. See Appendix I. Therefore, the profit motive is a central justification for the establishment of public enterprises. In this connection, the Sessional Paper No.10 on African Socialism and Its Application to Planning in Kenya noted the importance of tourism as a foreign exchange earner: "The development of tourism is of special interest to the government because it requires little or no subsidy, is an important source of foreign exchange, itself needed for development, and has a vast potential for growth" (Sessional Paper No. 10,1965:44). Hence, the establishment of Kenya Tourist Development Corporation for the purpose. Other monopolies established for similar reasons include, Kenya Ports Authority, National Oil Corporation of Kenya Limited, Kenya Power and Lighting Company Limited and the Coffee Board of Kenya, to mention a few.

In 1971, the government decided to buy out the private interests in three major enterprises in order to benefit from the high levels of profit generated by the same. The three were the East African Oil Refineries later renamed the National Oil Corporation of Kenya limited, the National and Grindlays Bank (Kenya Commercial Bank) and the East African Power and Lighting (Kenya Power and Lighting Company). According to Colin Leys,
"staking out a government interest in (these) new investments had the additional advantage that the government would have some share in the profitability of enterprises which enjoyed a high level of protection" (Leys, 1975:31). The implication of the above three enterprises on the nationalization policy of the government is discussed later in this Chapter, in Section 3.2.4.

The country has since then established several banks and insurance firms in competition with the private sector, not only for the purpose of profiting from the operations, but also with the aim of controlling the economy. Examples here include the National Bank of Kenya, the Cooperative Bank of Kenya, the Kenya National Capital Corporation and the Consolidated Bank of Kenya. In the insurance industry, there is the Kenya national Assurance Company Limited, Kenya Re-Insurance and Minet I.C.D.C. Apart from the banking and insurance industries, other notable examples include the General Motors Kenya Limited, Associated Vehicle Assemblers Limited, Kenya Posts and Telecommunications, and Kenya Ports Authority.

Public enterprises in Kenya were also established in order to develop a particular economic activity via their pricing policies (Heidermann, IDS OP No. 39, 1982). In this manner, the enterprises would serve as stabilizers of the economy (Rweyemamu, 1975:234) and thereby avoid unwarranted escalation of prices and lowering of the same. This is so especially with reference to public produce Marketing Boards and Consumer Cooperatives which seek to provide stable prices for major primary products and also to provide stable
facilities for transportation and marketing of these products. For example, Kenya Tea Development Authority (K.T.D.A) was established in 1968 to promote and foster the development of tea in the country. It provides extension services, transport, financial and credit assistance to outgrowers (Wanyande, 1981). In 1967, the government established the Horticultural Crop Development Authority as a Statutory Board under the Agricultural Act of Kenya. HCDA has control and regulatory functions in the growing, harvesting, purchasing, transportation, sale and marketing of the horticultural crops in Kenya (Klaus, IDS OP No. 39, 1982). Further, in 1984, the Kenya Grain Growers Cooperative Union was established to handle the distribution of farm-inputs and the buying, storage and marketing of grain produce in Kenya (Daily Nation, May 15, 1990).

Public enterprises have also been established for the purpose of regional development. Colonialism resulted in imbalances between different parts of the country since the colonialists were interested only in areas that had high agricultural potential. As a result, the rest of the areas were completely neglected. However, with the attainment of independence, the government noted that: "Every effort will be made to ensure that equal opportunities are provided for people in less developed parts of the country" (Sessional Paper No. 10, 1965:56). Thus, in 1974, the Tana and Athi Rivers Development Authority Act was passed in Parliament. TARDA was given the mandate to promote the development of the Tana and Athi Rivers basins. In October 1978, President Moi announced the creation of the Lake Basin Development Authority to coordinate the
development projects around the Lake Victoria Basin, and in January 1979, the Kerio Valley Development Authority was formed to exploit the economic potential of this region which is to the west of the Rift Valley.

The birth of Regional Development Authorities, therefore, "underlines the pre-occupation of the political leadership in developing the rural areas whose potential, both in human and economic terms, have long been neglected" (Okuthe - Oyugi, IDS WP No. 390, 1982:14). As such, public enterprises may arise from the government's desire to build an integrated national economy and to stimulate balanced regional development throughout the country.

3.2.3. Defence and Strategic Considerations

Some public enterprises have been established by the government because according to the nature of their operations, they cannot be left to the private sector. The reason is that, by leaving them to the private entrepreneurs, the safety of the people and the nation at large could be jeopardised.

Though the country does not manufacture arms to put such an industry under its ambit, it has other important undertakings which, in order to avoid sabotage, threats and intimidations, it has got to take control. In 1971, "the government decided to buy the controlling interest in what it considered a strategic industry by a foreign company" (Leys, 1975:130). Thus, the government
bought the controlling shares of the Kenya Commercial Bank, National Oil Corporation of Kenya Ltd, and the Kenya Power and Lighting Company Ltd. In deed, as early as 1965, the Sessional Paper No. 10 on *African Socialism and Its Application to Planning in Kenya*, had pointed to the need of certain industries to be under government control and, according to our assumption, "for defence and strategic considerations". The Paper pointed out that "Information and Broadcasting, Railways, Posts and Telecommunications, secondary and trunk roads, irrigation facilities, airports, national parks, statistical services --- are responsibilities of the government" (Sessional Paper No. 10, 1965:41). Hence, Kenya Broadcasting Corporation, National Irrigation Board, Kenya Posts and Telecommunications Corporation, Kenya Tourist Development Corporation and Kenya Bureau of Standards are all public enterprises. Other public enterprises that are of defence and strategic nature include the Kenya National Examination Council, Kenya Film Corporation and Kenya Ports Authority, among others.

Therefore, in determining the status of some public enterprises in Kenya, the question of national security looms large. Hence, certain public enterprises are established certainly with defence and strategic considerations in mind.
3.2.4 Political Philosophy

At independence, Kenya did not seem to have a clear political ideology as one can say of a country like Tanzania. Kenya's ideology of African-Socialism as expounded in the Sessional Paper No.10 on *African Socialism and Its Application to Planning in Kenya*, can be said to be ambivalent in that, while rejecting capitalism and foreign ownership of the means of production, it at the same time refused to undertake action for full control of the resources claiming that ownership can be abused whether private or public. What then resulted, and still continues today, is creating favourable conditions to woo the private sector to come and invest in the country.

Therefore, lacking a clear and coherent political ideology, the government rejected the idea of nationalization per se. It observed that "to imagine --- that the use of resources can only be controlled through their ownership or that of the appropriate ownership will guarantee the proper use of productive assets are errors of great magnitude" (Sessional Paper No.10, 1965:11). Though rejecting total nationalization, it however, pointed out that it would use nationalization when and where the need arose:

"Nationalization --- since it does not always lead to additional resources of the economy as a whole, will be used only where the national security is threatened, higher social benefits can be obtained, or productive resources are seriously and clearly being misused, when other means of control and financial resources permit, or where a service is vital to the people and must be provided by the Government as part of its responsibility to the nation" (Sessional Paper No.10, 1965:51).
However, in 1971, the government undertook nationalization of three major undertakings but with full compensation. It bought 50% of the shares (it had the other 50%) of the East African Oil Refineries from a consortium of oil companies and thereafter renamed it the National oil Corporation of Kenya. Secondly, it bought the remaining 40% shares, hence it had 100% share capital of the National and Grindlays Bank of Kenya which now became the Kenya Commercial Bank. Finally, by liquidating the remaining 49% of the shares, it gained full control of the East African Power and Lighting, a utility registered in London. The enterprise had its name changed to Kenya Power and Lighting Company Limited (Jorgensen, 1975; Leys, 1975; Grosh, 1988). The total cost of the three undertakings to the government was about K£ 11-12 million (Leys, 1975:131). This figure is very high taking into account that the government already had shares in the three enterprises: 50%, 60% and 51% respectively. If net, the assets of the three were worth about K£21 million. Against the country's economic poverty, this figure was quite high. In fact, the Sessional Paper No.10 on African Socialism and Its Application to Planning in Kenya had been very conscious of the large amount of capital (foreign exchange) to be involved if the country was going to nationalize the existing assets. The Paper had stated that:

"It should be recognized that if the nation's limited capital is used to buy existing land, livestock, buildings, machinery, and equipment, the nation has no more productive assets than before — only their ownership has changed. What may be lost are the new resources that could have been purchased instead — and the employment opportunities and added output that these developments could create. Further, the money paid for nationalized resources and the people who managed them before
nationalization would most likely leave the country increasing our foreign exchange and skilled manpower problems" (Sessional Paper No. 10, 1965:26).

This then is the reason why the government rejected the idea of full nationalization and opted for Africanization. For one, Africanization was seen as the only solution to the problem of the country's foreign dominated economy, such that by Africanizing it, the economy would be consistent with growth and development (Sessional Paper No. 10, 1965). Furthermore, Africanization was seen as a way for increasing indigenous participation in commerce and industry thereby enhancing political stability (Rweyemamu, 1975:234). There were two ways to achieve Africanization. One, by inducing large foreign companies to go public - by selling shares to the public through the Capital Issues Committee at Treasury (Leys, 1975:128-129). The other way was to reorganise old institutions and establish new public enterprises to implement the new policy. It is this second method which is of interest to us here.

In 1967, the Industrial Development Corporation, IDC, was restructured and became the Industrial and Commercial Development Corporation. ICDC participated in the equity of foreign companies and also lent money to them, in addition to running small loan schemes for African traders and industrialists. By June 1990, ICDC had invested a total of Sh 725 million in 17 subsidiaries and 51 associated companies (Daily Nation. July 13, 1990). Some of the notable subsidiaries of ICDC include the Kenya National Trading
Corporation (KNTC) and Kenya Industrial Estates (K.I.E).

KNTC was established as a wholly-owned subsidiary of ICDC. It is a wholesale company and its inception was part of the strategy to Africanize both wholesale and retail trade. By initially dealing in basic consumer commodities as a monopoly, the State not only wanted to ensure the regular availability of these goods, but also acted as a major supplier to the new African traders, thereby ensuring their viability in this highly competitive sector.

K.I.E, also a subsidiary of ICDC, has as its mandate the creation of small production units into "mini-industrial zones" in various centres throughout the republic. These units are divided into three categories, depending on their location: in big towns they are called Industrial Estates, in small towns they are known as Rural Industrial Development Centres (R.I.D.C.), whilst in the rural areas they are referred to as Industrial Promotion Areas (I.P.A).

The Agricultural Finance Corporation, A.F.C., was established under the Agricultural Credit Act (Laws of Kenya, Cap 323, 1972) in 1969 and took over and combined the credit functions of two Boards of Agriculture then serving the European and African areas as separate entities. Its role was then mainly to give credit facilities to those Africans wishing to procure farms from the settlers. However, under the A.F.C. Act (No. 1 of 1969), the corporation was reconstituted with wider powers and also took over the functions, assets and liabilities of the Land and Agricultural Bank of Kenya. Under the new Act, AFC provides both mortgage and
development credit to large as well as small-scale farmers.

In 1965, the Agricultural Development Corporation (A.D.C) was created with the objectives of securing the transfer of large farms intact to the nationals. This was done either by resale or by leasing the farms that the State had bought from the settlers. In 1971, A.D.C. started concentrating mainly on state firms which are mostly experimental specializing in mixed farming and selling seedling production.

Finally, the National Construction Corporation (NCC) was established in 1967 to provide working capital and technical assistance to African contractors. It was created when it was realised that the African contractors were experiencing problems resulting from lack of capital and credit facilities for acquisition of materials, equipment and transport. However, the situation did not improve and in 1972, in order to save the Africans from stiff competition offered by the Asian contractors, the government introduced a system of giving NCC first option on all government building work costing no more than K£ 20,000 per project. The NCC then negotiated contracts with the Ministry of Works and subcontracted them to African contractors. It also provided them with funds or guaranteed their bank loans. The African contractors were entitled to any profit made on their share of the contract. They thus got, in effect, both protection and subsidy. But even with this setting, there was a succession of failures leading to the liquidation of N.C.C. by the government in 1987.
3.3 **Forms of Public Enterprises**

This section has deliberately omitted a discussion of the organizational types of public enterprises, since the issue has been fully discussed in Chapter Two. In this section, an attempt is made to classify public enterprises into various forms according to their functions and objectives. It is an attempt in the sense that, due to the broad objectives accorded to public enterprises, a public enterprise can easily fit into two or even the three forms identified here.

3.3.1 **Business Organizations**

The public enterprises that fall under this category are expected to operate like any other commercial enterprise in the private sector. As a result, they should compete and show profit either to re-invest into the expansion or diversification of the enterprises themselves, or to act as sources of revenue for the Exchequer (Rweyemamu, 1975:233). See Appendix I.

However, advocates of better performance of public enterprises (i.e. Nellis, Shirley,) have argued that, public enterprises should be allowed to have a say in the way the generated profit is to be used, since in doing so, it gives them a drive or is a source for further better performance. Of importance
to mention here include all banking and insurance firms, General Motors Kenya Limited, Textile industries, Kenya Airways, Kenya National Trading Corporation, Sugar Companies, Agricultural Finance Corporation and National Oil Corporation of Kenya.

These enterprises operate in areas that are very favourable for private investors due to quick capital returns from relatively moderate capital investments. As a result, apart from the severe market competition, the public enterprises operate under very high competition in both material and human resources and needless to say, the general management of public enterprises in Kenya (discussed in a later section) renders most of them to operate inefficiently.

3.3.2 Development Organizations

These public enterprises are established in order to provide certain basic services that are needed by the public for their personal and mutual development. The services provided are in areas of communication, transport, agriculture and marketing. They are infrastructural enterprises. The enterprises which provide these services include, Kenya Posts and Telecommunications Corporation, Kenya Power and Lighting Company Ltd, Kenya Railways, Regional Development Authorities, Cotton Board of Kenya, Pyrethrum Board of Kenya, Horticultural Crop Development Authority and the Coffee Board of Kenya, among others. See Appendix I.

Most of these public enterprises require huge investments
and initially the profit generation, if any, is not quick enough. As such, unlike the business organizations, the sectors they operate in are not favourable for private investors. Moreover, due to the nature of services provided, some of the public enterprises under this category operate as monopolies and competition is therefore not a serious matter.

On the issue of profit making, "these enterprises may or may not generate profit" (Rweyemamu, 1975: 233) due to the broad and contradictory objectives assigned to them. In fact, the nature of these objectives makes the assessment of performance difficult as there is no laid-down criteria with which to measure particularly the social objectives which they perform.

3.3.3 Service Organizations

The public enterprises that are established for this purpose provide social services to the public and in most cases the services provided are of a specialized nature. Here, no profit is made at all and the revenue generated (if any) from the provision of the services is treated as appropriation-in-aid and revamped back into the enterprise to ease the annual government allocation.

Enterprises under this category include, the National Museums of Kenya, Kenya Film Corporation, Kenya National Examination Council, National Housing Corporation, Jomo Kenyatta Foundation, Kenya Library Services, National Council for Science and Technology, Research Institutes, National Hospital Insurance...
Fund, Kenyatta National Hospital, and National Social Security Fund. See Appendix I for more examples.

To establish these public enterprises, very little public investment is needed, and hence, government investment in this area is quite minimal. Moreover, there is no competition at all as the area is almost virtually of no interest to the private investors. As a result, there is usually no government protection given.

The establishment, by the government, of some of these public enterprises (i.e. museums, libraries, hospitals, etc) in the public sector, is as a result of the weakness of the local authorities to do the same.

The question which now arises is whether there is any relation between performance and form of classification of public enterprise. Most writers seem to agree that there is no relation whatsoever between the two as classification is only related to function. Thus, a certain public enterprise will be classified differently from another depending on the functions and objectives assigned. Therefore, whether a public enterprise is classified as a business, developmental or service organization does not matter as these are just mere classifications. However, as pointed out in Chapter two, some functions might be more difficult to perform than others, and in that case, classification might be remotely related to performance. Nevertheless, what is of importance is that, since every public enterprise is established to fulfil a definite set of objectives, be they social or commercial objectives, it should do so efficiently. As such, the performance of public enterprises is
3.4. Management of Public Enterprises in Kenya

The term 'management' as has been defined in Chapter Two, refers to the process of achieving the objectives of a public enterprise through the cooperation and coordinated effort of all the enterprise members, both from within and without, following well defined techniques. Following this definition, this study seeks to tackle the issue of performance of public enterprises in Kenya by analysing the salient factors that necessitate or curtail the achievement of the enterprises goals. It should be emphasised that, in meeting their laid down objectives, public enterprises are supposed to do so efficiently and at no time should efficiency be sacrificed for any reason. However, it is a known fact that, ever since their inception, the performance of public enterprises in Kenya is mediocre, to say the least. For example, by Kenyan Government estimates, "more than $1.4 billion had been invested in all public enterprises in Kenya by early 1980s, yielding an average return of 0.2 per cent ---" (Finance Magazine, 16-31 May, 1990).

Notwithstanding, the Government has also invested in other firms whereby it has minority shareholding through the I.C.D.C. The I.C.D.C has acted as the intermediary in the acquisition by the Government of shares in various ventures both national and foreign. In total, public enterprises included, the Government has invested in 250 firms worth an estimated Sh.40 billion (Kenya Times, July 2,
Therefore, to benefit from its investments, public enterprises should perform efficiently.

However, most of them are guzzlers of national resources. They hardly pay taxes or dividends to the Government. Instead, they have had to be subsidized for their uneconomic undertakings.

This trend has continued to the extent that almost every other day we read about inefficiency of public enterprises in the press. For instance the Kilifi Cashenuts Company Ltd, opened in 1976, was closed in February 1987 because of mismanagement. At the time of closure, the company was indebted to the tune of about Sh. 90 million: of these, Sh. 45 million was owed to the National Cereals and Produce Board, Sh 34 million to Barclays Bank and Sh. 8 million to farmers. Sh 3 million stood out as irregularly awarded loans (Daily Nation, July 3, 1990). Also, during the 1987/88 financial year, the National Cereals and Produce Board (NCPB) "incurred losses amounting to over Kshs.450 million due to irregularities during stock movement, storage losses, overpricing, and misappropriation ---" (Daily Nation, June 17, 1990). Further, according to the 1987/88 audit reports, the South Nyanza Sugar Company (SONY) had accumulated a deficit of KSh. 1.12 billion, while the East African Sugar Industries had built up losses amounting to Ksh. 311 million by the end of June 1988 (Daily Nation, March 26, 1990).

The gross mismanagement in our public enterprises has also led to the creation of committees to probe the poor performing public enterprises. "At present probe committees for the Kenya Tea
Development Authority, Kenya Railways Corporation, Kenya Co-opera-tive Creameries, Kilifi Cashewnuts Ltd, Coffee Board of Kenya and Kenya Airways have been appointed in recent times and were all commissioned by the Office of the President" (Weekly Review, June 8, 1990).

The performance has deteriorated so much that a good number of public enterprises have been put under receivership. In this case:

- The Kenya Chemical and Food Corporation, established in 1977 as a joint venture between the Government of Kenya and foreign investors, was placed under receivership in 1983 by the Kenya Commercial Bank, a secured creditor. Foreign creditors totalled Kshs.946 million by 1986;
- Ceramic Industries (EA) Ltd, established in 1967, was placed under receivership in 1988 by the National Capital Corporation. The industries owed the Bank large sums of money in long term loans and interest arrears amounting to Kshs. 22,636,026 as at April, 1988. However, the corporation was recently advertised for sale in Europe (Daily Nation, Dec. 11, 1990);
- Yuken Textiles Industry Limited. The Textile industry was started in 1976 but was placed under receivership by the Kenya Commercial Bank due to its inability to pay KShs.19 million to creditors.

These glaring examples of inept management serves as a grim reminder of the colossal amount of public resources that are
continually put to waste. In response, the government has made tremendous effort to streamline the sector with a view to putting into place a machinery to effectively monitor and control the sector. In 1971, public enterprises were under review as part of the exercise undertaken by the Commission of Inquiry under the chairmanship of Duncan Ndegwa. Moreover, in 1979, President Moi appointed the Ndegwa Commission of Inquiry to review the operation of the sector. But the policy paper that gave the most comprehensive position of the public sector was the report of the Working Party on Government Expenditures, 1982. It is on the recommendations of these Commissions that the government introduced the State Corporations Act of 1986, through which the state hoped to introduce a more effective system of controlling public enterprises.

The Act established the Inspectorate of Statutory Boards to offer consultancy services to public enterprises and ministries on matters pertaining to the effective management of public enterprises. Secondly, the Act created the office of the Auditor General - State Corporations, to audit all public enterprises books of accounts. Finally, a State Corporation Advisory Committee with the mandate to advice the President on the re-organization of the public enterprises, among others, was established.

In spite of all these, the performance of public enterprises has not improved, if anything, it has grown worse. This poor aggregate performance of public enterprises is especially disturbing since most of them are monopolies and often control some
of the potentially largest revenue earning activities. Furthermore, the poor financial results mean little or no self-financing of investment, rising debt and a growing burden on the Treasury. In his 1989/90 budget speech, the Vice President and Minister for Finance decried the lacklustre performance of public enterprises. He noted that there was a widespread lack of financial control and discipline and regretted that the Treasury was being forced to divert funds from budgeted purposes to meet some public enterprise obligations. He warned that the Treasury "will no longer honour such parastatal debt obligations without thorough investigation of the circumstances behind the payment default" (Kenya Times, Friday, June 8, 1990). As a result, there is a great deal of official and non-official dissatisfaction with the performance of the public enterprises. This dissatisfaction is usually reflected in a simple question: Why do public enterprises persist in making losses while private enterprises in similar operations show profit?

3.4.1 **Salient Explanations**

In trying to answer the above question, we now analyse the issue of the management of public enterprises in Kenya utilising the same sub-themes as in Chapter Two. These are:

i) Objectives of Public Enterprises;

ii) Control of Public Enterprises;

iii) Composition of Boards of Public Enterprises;
iv) Staffing of Public Enterprises; and 
v) Issue of Monopoly.

3.4.1.1 Objectives of Public Enterprises

The literature in Chapter Two indicated that public enterprises are charged with a wide variety of functions, which in some cases are usually conflicting and contradictory. This combination of both social and commercial objectives makes it difficult for the enterprise management, not only to decide which objectives to pursue, but also to perform efficiently. Hence, public enterprises have often been called upon to carry out some inherently unprofitable functions which a private firm would not dare to undertake. Therefore, these social objectives are usually mandatory and they have to be performed.

In Kenya, the situation is the same. To show this, the study has analysed objectives of some corporations, namely, Kenya Railways Corporation, Agricultural Finance Corporation, Kenya National Transport Corporation, Kenya Power and Lighting Company and Kenya Commercial Bank. This analysis is meant to be illustrative only.

As defined in the Corporation's Corporate Plan, the corporate objectives of Kenya Railways Corporation are as follows:

(a) The primary objective of Kenya Railways Corporation (KRC) is to provide a network of rail freight and passenger transport services to meet the present and future needs of its customers;

(b) KRC should operate commercially and earn sufficient
revenue from the provision of its services to cover its operating costs, earn a return on its assets, and provide funds for investments;

(c) In operating commercially KRC should:

(i) closely match the level and pattern of services it provides to the changing needs of its customers;

(ii) apply railway charges flexibility to reflect both market conditions and the cost structure of the railway; and

(iii) manage its operations and overheads so that services are provided efficiently and cost-effectively.

(d) when requested by Government to satisfy wider economic and social objectives, KRC should retain parts of the railway network and operate some services that are non-commercial.

(e) KRC should reconcile any such public service obligations with its commercial and financial objectives and policies in order to enable the Corporation to adhere to sound management principles and disciplines in directing its marketing policies and controlling its resources. This would require Government to provide specific financial compensation for any non-commercial services operated (Kenya Railways Corporate Plan, 1987/88 - 1991/92, July 1987).

From the above, the objectives of KRC are contradictory in that, whereas objective (b) talks about the need for the KRC to operate commercially, objective (d) emphasizes the social roles that it should fulfil. Moreover, though objective (e) talks of Government compensation for the non-commercial services operated, the same has never been forthcoming. In this regard, in 1985, the Government asked the KRC to provide passenger transport coaches to peri-urban routes to i.e Umoja, Dandora, Kasarani, Githurai, Kahawa, Kibera, Limuru, etc. In implementing this Government Policy, the corporation loses Shs. 1.25 million per year (Daily
This year (1991), the Government ordered the corporation to provide water to people living near the railway line in Taita Taveta District. Moreover, the K.R.C undertakes passenger (2nd and 3rd class passengers) and freight services (of grain, fertilizers, soda, flourspar, etc) that are non-commercial. According to the Kenya Railways Corporate Plan (under reference), the losses incurred in providing the services were projected as follows: 1988/89 - Sh 342 million, 1989/90 - Sh 302 million, 1990/91 - 239 million and 1991/92 - 187 million (Kenya Railways Corporate Plan, 1987/88-1991/92). The same Plan pointed that "without compensation KRC will be facing continuous financial difficulties which will make it very difficult to improve its operating performances and efficiency". It is then not a wonder that Kenya Railways Corporation is a perennial loss maker.

The Agricultural Finance Corporation (AFC), a predecessor of the Land and Agricultural Bank of Kenya, was established in 1969 and conferred with the following functions:

"to assist in the development of agriculture and agricultural industries by making loans to farmers, co-operative societies, incorporated group representatives, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries" (The Agricultural Finance Corporation Act, Cap 323, section 3 (2)).

To do this, the corporation was, among others, to procure loans either in Kenya or abroad. It was also to charge interest on the loans granted and thereby increase its funds. However, in 1989, the corporation lost more than Shs 800 million when it wrote off loans for a variety of reasons. These reasons were mainly social. Some of the loans written off were:
of people who suffered irreparable loss due to the devastating drought of 1984;
those which came during the 25th anniversary of AFC;
bad debts under the wildlife claims; and
the Kenya Livestock Development Project loans for water supplies and access roads
(Daily Nation, November 9, 1990).

Therefore, the AFC, a commercial enterprise, went out of its way and pursued some non-commercial functions thereby losing a substantial amount of money.

The Kenya National Transport Corporation (Kenatco) which came into the public sector in a rescue operation in 1966, had two lines of business: goods transport via lorries and taxis. During the mid sixties, it also operated a fleet of inter-city passenger buses, but the Government decided to reserve that sector for independent African operators (Grosh, 1988).

In 1981, Kenya agreed with Uganda, Rwanda, Burundi, Zaire and European countries that greater security was needed and each member state was to provide security escort services for transport goods. Normally, such duty would fall to the police. The decision was taken fairly abruptly, so that there was little time for planning. Since Kenatco was in possession of suitable escort vans, it provided the transport and travelling allowances for the police officers who were to escort transit goods.

The decision to provide escort services was taken in August 1981, and the escort services began in September of the same year. No provisions were made for compensating Kenatco for providing for these police functions, which they provided not only for their own traffic, but also for other transporters. Invoices for
reimbursements submitted to the Office of the President were returned with the remarks that no funds were allocated for that purpose.

By May, 1983 the amount outstanding to Kenatco for escort services was Shs 12.4 million, an amount equal to nearly one third of Kenatco's net assets (Grosh, 1988: 316). During the same year, Kenatco was put under receivership. Its decline was hastened by this policy, for which it can hardly be held responsible.

Other public enterprises with social unprofitable functions include the Kenya Power and Lighting (K.P.L) Corporation and its rural electrification scheme and the Kenya Commercial Bank (KCB) and its plans to open a branch in every district in line with the District Focus for Rural Development. K.P.L can perform the social goals successfully since it is a natural monopoly and "can finance the social spending from monopoly profit and still remain financially healthy and able to carry out its main-market-oriented function" (Grosh, 1988: 388). However, the K.C.B, a financial institution, is in a very competitive field. By opening a branch in every district it uses a lot of capital, and in some districts, i.e., Wajir, Mandera, Lodwar, etc, mobile banking facilities are enough since very few worthy customers are forthcoming. Instead, the money so used could be utilised to improve customer services in the already established branches. Moreover, the opening of the new branches should not be an "overnight objective", but something which should be done over a period of time relative to the profit generated.
The high cost of pursuing the social objectives has caught the attention of several writers on public enterprise management. One of these is Mary Shirley who observes that one of the possible causes of low public enterprise profit is that they are often required to undertake social tasks that add to expenses (Shirley, 1983). Furthermore, the Working Party on Government Expenditures noted that "the use by Government of parastatals and some other enterprises as instruments of public policy at times seriously undermines their capacity to finance and manage their own operations" (Ndegwa, 1982: 44). Hence, "most of these enterprises are operating inefficiently and unprofitably, partly because Government has imposed public functions and excessive employment on them" (Ndegwa, 1982: 13).

According to Shirley, there should be full government compensation for the cost of the social activities performed by public enterprises (Shirley, 1983). Moreover, "if parastatals are expected to implement public policies at a loss, such losses should be explicitly subsidized by the Government through a clearly earmarked subvention in the budget so that internal efficiency of parastatals can be properly evaluated" (Ndegwa, 1982: 44).

3.4.1.2 Control of Public Enterprises

Public enterprises all over the world are subjected to some measure of control and Kenya is no exception. The main reason for government control of public enterprises is to effect good
performance. It has to be realised that money invested in the enterprises is public money and hence the government is accountable for the same to the tax-payers. Control is therefore necessary to safeguard public money and to see that it is used efficiently. Moreover, "since many of the public enterprises are monopolies and enjoy a privileged status, control is necessary to ensure that they maximise their performance" (Hanson, 1959: 385).

Much of the attention of those responsible for overseeing public enterprises has been fixed on attempts to centralize greater control of the firms into the civil service. They see public enterprises as running unacceptably large deficits and hence the need to keep them from spending too much.

In 1986, the Government, through the State Corporations Act, 1986 created three control agents: the Inspectorate of State Corporations, the Auditor General Corporations and the State Corporations Advisory Committee. These were established by the Government in order to introduce a more effective system of controlling the sector. This is because public enterprises are perceived as being out of control. According to Barbara Grosh, this is just the same as saying that the "Managers are out of control" (Grosh, 1988:377). Furthermore, even the official Government reports (Ndegwa, 1977; Ndegwa, 1979 and Ndegwa, 1982), though they pinpointed other sources of the public enterprise problem, they tended to fix most of the blame on the Managers who are viewed by many in both the private sector and civil service as overpaid, incompetent, lax and lucky to face less constraining
controls than do the civil servants themselves. Hence, the State Corporations Act of 1986 was merely designed to bring the Managers under greater control.

The Inspectorate of State Corporations which was until 1990 a full department in the Office of the President, was created to offer consultancy services on matters pertaining to the effective management of public enterprises. It also reviews salaries and remunerations of these enterprises. However, since July, 1990 the Inspectorate is just a unit within the Office of the President entrusted only with salary reviews and remunerations of the public enterprises. All other work is now being handled by the parent Ministries but in close collaboration with the Office of the President. Hence with less duties, some of the staff members have been transferred to the Treasury as the Inspectorate members will no longer visit the enterprises to monitor progress at the site.

However, the Inspectorate used to monitor the progress of the public enterprises and to give advice where necessary. Nevertheless, it had no power to enforce the recommendations and so the enforcement was left to the parent Ministry.

This is also the case with the Auditor-General, State Corporations. After auditing public enterprises books of accounts, he does not follow-up in those areas where there is financial mismanagement. Instead, he leaves it to the concerned Ministry to analyse the annual report, pinpoint the loose areas and seal them. However, at the Ministry, the Audit Reports are just noted.
The State Corporations Advisory Committee, unlike the above two bodies, is not permanent in that it only sits when the need arises. It consists of the Head of Public Service as Chairman. Others include the Permanent Secretary to the Treasury, the Director of Personnel Management, the Inspectorate of State Corporations and eight other members appointed by the President. Its duties include:

- "--- (to) advise the President on the establishment, reorganization or dissolution of State Corporations,
- where necessary, advice on the appointment, removal or transfer of officers and staff of State Corporations, the secondment of public officers to State Corporations and the terms and conditions of any appointment, removal, transfer or secondment,
- examine any management or consultancy agreement made or proposed to be made by a state corporation with any other party or person and advice thereon,
- examine proposals by State Corporations to acquire interests in any business or to enter into joint ventures" (State Corporations Act, 1986).

Specifically, the whole question of control revolves around financial management. Three months before the end of every financial year, public enterprises are supposed to make their Estimates. These have to be passed by the Board, then forwarded to the parent Ministry and finally to the Treasury for approval. From then on, the Auditor General, State Corporations is supposed to continuously see that the enterprises operate within the approved budget.

Secondly, public enterprises cannot invest anywhere they
want. They are required to invest in government institutions such as the Kenya Commercial Bank and the National Bank of Kenya or in Treasury Bills. If a public enterprise wants to invest outside these institutions, for example where the donor money is tied and has to come through the Standard or the Barclays Bank, the enterprise concerned has to seek the express authority to do so from the Treasury via the parent Ministry. In addition, all public enterprises are required to write to the Treasury every month and state where their money is invested. These conditions have been unwelcome by the enterprise managers, and hence they usually disregard them and invest elsewhere to the wrath of the "controllers". For example, the Public Investments Committee found that the Kenya Posts and Telecommunications Corporation (KPTC) "invested about sh 55 million irregularly in local financial institutions --- while other deposits were placed through intermediaries" (Daily Nation, Nov. 8, 1990). Also the Kenya Pipeline Company was found to have invested over sh. 163.74 million during the 1986/87 financial year in five financial institutions and building societies which were later placed under receivership (Daily Nation, Nov. 12, 1990).

In these cases, the directors did not assess the viability of the financial institutions before placing public funds with them. (Note the calibre of the public enterprise managers). For this reason, it is alleged that there were some kick-backs involved in the process. All the same, the government is in a dilemma of what to do with some of the investments. This is because, when a
corporation invests in government institutions or in Treasury Bills, it only earns on interest of 12% whilst in some of the unauthorised financial institutions, the interest rates are higher - ranging between 13% and 16% and hence the dilemma.

However, one issue is very clear: that public enterprises detest the kind of financial control imposed on them. This study found public enterprise officials tight-lipped on whether the financial controls are welcome or not, merely saying that the government has a right to monitor and control its investments. But a senior auditor with the Auditor General, State Corporation was more open and frank. The interview went thus:

Question: Taking into account the findings of the Public Investments Committee which were reported in the press recently of parastatals not investing in the Treasury Bills as required, wouldn't you agree that the parastatal managers hate this type of financial control and more so where to invest?

Response: Their feeling is understood. Was I in their position, I wouldn't like the controls either.

(Source: Personal Interview, April, 1990)

The end result is obvious: that the public enterprise bosses see themselves as being made novices in the sector (commercial). Hence, they become demotivated, withdrawn and finally assume a don't-care-attitude, thereby plunging the enterprise into the abyss of poor performance. Therefore, public enterprises are subjected to too much external control as opposed to internal control which good management would obviously like.

Thirdly, control indirectly spills over to staffing and other public enterprise policies. On staffing, it is true that
though a public enterprise does not have to seek authority from the parent Ministry, it is implicitly implied since any additional staff requirement has to be reflected in the Personal Emoluments when doing the Estimates, and these are approved by the Treasury via the parent Ministry. But this does not hinder the enterprise managers from illegally employing additional staff even when the same is not accounted for in the Estimates. Moreover, staffing is controlled by the salary structures, which rather that being drawn by the Boards of Directors, are done by the Office of the President.

Finally, on policies, the issue of control arises when a public enterprise wants, for example, to increase the price of its products or commodities. To do so, it has to seek authority from Treasury via the parent Ministry. By the time the approval is granted, other things have already escalated thereby making the price adjustment out of tune with market forces. In the final analysis, the enterprise can in no way show operating surplus, leave alone break even.

Therefore, the type of controls subjected to public enterprises in Kenya, as in other parts of the World, cannot only be seen as an attempt to harmonise their management with that of the civil service, but can also be perceived, as they usually are, as an abuse to creativity on the part of the public enterprise managers. In the later context, the controls then act as demotivaters which just drive the enterprises into increased inefficiencies. As such, the authors of these policies seem
scarcely able to comprehend the commercial side of public enterprises. They just regard them as quasi-government spending units.

3.4.1.3 Composition of Boards of Public Enterprises

As pointed out in Chapter Two, most of our Boards are Representative Boards and appear to be ill-composed to represent the interests of their political patrons rather than of the enterprises. One such Board is the Kenya Posts and Telecommunications (K.P.T.C). Appointments here seem to indicate political patronage. The Board Members are as follows:

1. Mr. J.N. Kariuki - Chairman
2. Mr. K. arap Ng'eny - Managing Director
3. Mr. M. Kirui
4. Mr. J.S. Polong
5. Mr. Kimuya
6. Mr. J. Wanjau
7. Mrs. Wilkista Onsando
8. Mr. W. Letting
9. Mr. D. Malakwen - Secretary
10. Permanent Secretary, Treasury; and
11. Permanent Secretary, Ministry of Transport and Communications.

Mr. Kariuki is the Chairman of the Board. However, what strikes one about this Board is that Messrs. Ngeny, Kirui, Letting, Polong and Malakwen are all from a common ethnic group. The lady
in the group is none other than the Chairman of the KANU-Maendeleo ya Wanawake, the voluntary women organization, which was in 1988 affiliated to KANU. Mrs. Onsando was appointed Director soon after the affiliation. The other two members, Mr. Wanjau and Mr Kimuya, both Kikuyu's, are there to try and balance the situation. In general, however, the composition of K.P.T.C. Board of Directors is politically and ethnically oriented.

This aside, the corporation has generally performed effectively since inception. For example, in the 1987/88 financial year, the corporation reported a net surplus of Sh. 696.75 million (Daily Nation, July 18, 1990). This is because until recently it has had a monopoly in providing telecommunications and related services, which made it naturally easier for it to show healthy returns despite the Board's composition. However, according to the Public Investments Committee, the corporation has been cash-strapped. One of the reasons for poor liquidity is that the investments of surplus funds deposit accounts were done at interest rates lower than market levels (Daily Nation, Nov 12 1990). This is no doubt a Board's decision. We can only surmise the reasons behind the apparently poor decision.

Though the study commends the good performance of the Kenya Seed Company Ltd, its Board of Management portrays open ethnicity. All the members are mainly from one ethnic group. They are:

1. Dr. Taita Towett - Chairman
2. Mr. N. K. arap Tum - Managing Director
3. Mr. K. arap Kirui - Director
4. Mr. J. F. K. Barmasai - Director
5. Mr. E. Bartien - Director
6. Mr. W. K. Kilele - Director
7. Mr. J. Burch - Director
8. Mr. E. J. Ges - Financial Controller

( Daily Nation, Nov. 2, 1991)

The Board is clearly a good example of patronage. All except two members are from the same ethnic group. This fact drove one MP to state in Parliament that "nearly all Ministries and State Corporations are ridden with corruption, tribalism and nepotism --- the Kenya Seed Company (is) the worst hit as it is being run predominantly by members from one tribe" ( Daily Nation, Nov. 7, 1991). Hence, the composition of the Board shows that appointments to the Board are governed by other things other than business acumen.

The Kenya Railways Corporation (KRC) is another public enterprise whose Board appears to be ill-composed. Apart from the two Permanent Secretaries, to the Treasury and the Ministry of Transport and Communications, the other Board members are the same people who were appointed by the President in 1988 to probe the affairs of the corporation. On handing over their probe report, a major reorganization of the Board was done and in came the group -ironically to implement their recommendations. These members are:

1. Prof. Jeremiah K. Musuva - Executive Chairman. He was formerly Chairman, Department of Civil Engineering, Nairobi University. He was Chairman of the Probe Committee;

2 Eng. Joel Mudhune - General Manager. Eng. Mudhune was
formerly deputy to Eng. J. Mimano, the former K.R. Executive. However, Eng. Mimano recommended that he be deployed at the Ministry as he was inefficient and incompetent. But at the end of the day, it was Eng. Mimano to bite the dust as Eng. Mudhune was included in the Probe Committee and thereby a ticket back to the corporation;

3 Dr. Pius Alois Okello - Board Member. The author was unable to establish much about this member except that he too was a member of the probe committee;

4 Eng. Philip Okundi - Board Member. Okundi is also the General Manager of Kenya Ports Authority and also for a short duration in 1990 acted as the Managing Director of Kenya Broadcasting Corporation. Therefore, he then had two full-time offices: one in Mombasa and the other in Nairobi. This is purely over-burdening one man, to an extent of giving him a false image - that he is almost indispensable. He was also a member of the Probe Committee;

5 Mr. John K. Etemesi - Board Member. Mr Etemesi is a former Provincial Commissioner in Central Province. He retired in 1989 under the 50 year rule after a protracted war of words between the then Vice-President, Dr. Josepheit Karanja and Cabinet Minister Arthur Magugu, with the latter accusing Dr. Karanja, of aspiring for his Githunguri seat. Apparently, Etemesi is alleged to have been openly pro-Karanja and with the fall of Karanja, Etemesi quietly retired, only soon after to be appointed a member of the Probe Committee;

6 Mr. Brown Waweru - Board Member. It is alleged that Mr. Waweru, who used to be a Traffic Manager, (KRC) had been dismissed from the employment of the K.R.C. some time in early 1988. However, he was later included in the Probe committee; and

7 The other two members are the Permanent Secretaries. These, as is usually the case, are deputised by their junior officers to Board meetings.

The decision of appointing the probe committee to be members of the Board could very well be justified, but to the author's knowledge, it has no historical precedent. What is worth noting here is that, the corporation is still showing losses. Thus,
during the 1988/89 financial year, it returned a loss of over Sh. 64 million (Daily Nation, Nov. 13, 1990). The question which now arises is whether this is another case where the "major cause of failure of the corporation --- is political patronage in the appointment of Board members --- (whereby the members) become instruments of political rather than economic policy" (Rweyemamu, 1975: 243).

As noted in Chapter Two, apart from Boards sometimes being politically and ethnically oriented, they are also sometimes composed of people who have poor educational background and little business experience. A good example of this is the Post Office Savings Bank. Its Chairman is Mr. A.R.H. Abbas who has an 'O' Level Certificate of education and a Diploma in Business Administration. However, he is not a full-time employee as he only chairs the Board meetings. This cannot be said of the Managing Director, Mr. I.F. Kiplagat, who holds the steering wheel of the corporation. His curriculum vitae would include the following:

- 'O' Level Certificate of Education
- a Certificate in Management Training Course
- retired as a Cadet in 1966
- worked as an administrator with the International Amateur Athletic Association.

It is with this background that he was appointed to head the Post Bank, a commercial enterprise. Though we should not attribute poor performance to the perceived inadequancies of one man, the corporation is reported to have suffered heavy losses from some of its investment schemes. Among them are the highly-publicised premium bonds through which the bank lost over sh. 6.94
million in one year. Further, the fixed deposit scheme also reported a deficit of Sh. 132,000 (Daily Nation, Nov 12, 1990).

Kenya Airways is another case in point. The former Board of the airline had 16 members, thereby making it one of the largest. However, it was composed of ex-diplomats, ex-politicians, medical personnel and academicians, and all these lacked any business experience. Some of the former members were:

- Dr. B. M. Gecaga - Chairman. Dr. Gecaga was appointed Chairman to rejuvenate the loss making airline because he has over the years successfully managed B.A.T (Kenya), a multinational from Britain. However, managing K.A proved difficult since the rules of the game were different. Here, bureaucracy, rigidity, laxity, liquidity problem, etc proved to be big obstacles.

- Mr. J.N.N. Nyagah - Managing Director. Mr. Nyagah is the eldest son of the Minister for Environment and Natural Resources, Hon Jeremiah Nyaga. Before his appointment as the Managing Director, Mr. Nyagah was Kenya's Ambassador to France, a post that had little to do with airline business. Hence, Mr. Nyagah had no business orientation before then.

- Prof. C.L. Wanjala - Director. He is currently the Chairman of the Department of Literature in Egerton University.

- Prof. J.S. Maranga - Director. He is the current Chairman, Department of Mechanical Engineering at the University of Nairobi.

- Dr. J.K. Yego - Director. Dr. Yego is a lecturer at Moi University, Eldoret.

- Dr. F.M. Mueke - Director. Dr. Mueke is the Deputy Director of Medical Services in the Ministry of Health.

The above, who constituted about half of the airline's Board of Directors, were just 'perfect' in their respective fields of academic, medicine, politics, etc but not in a competitive and commercially oriented industry such as an airline. This could have contributed to the fact that during the 1986/87 financial year,
K.A. suffered operational loss of Sh. 287.8 million due to stiff competition from other airlines. In addition, it invested large sums of money with various banks and financial institutions at annual interest rates as low as 8%. Moreover, its short-term deposits were understated by about Sh 15.6 million (Daily Nation, Nov, 8, 1990). No wonder, the Board was recently dismissed by the President on April 5, 1991 after serving for only three years - one contract term. In dismissing the Board, the President said that it had "exhibited contempt for public accountability by entering into business transactions without proper and reasonable scrutiny, which resulted in unexpected loss to the national flag carrier" (The Standard, April 6, 1991).

Respectively, as the Ndegwa Report found out "a good number of directors of various Statutory Boards and Corporations have relatively poor educational background (as in the case of Post Bank) and little business experience" (Ndegwa, 1971: 205). Hence Joe Wanjui (Chairman, E.A.I) correctly refers to these political appointees as "dabblers in business whose livelihoods are from other occupations" (Daily Nation, May 6, 1990). As such, lacking any business acumen, the Boards, slowly but surely, direct the public enterprises towards insolvency.

As noted in Chapter Two, there is need to divorce politics from Board appointments and bring an end to Representative Boards. This would give way to Functional Boards. The people appointed to these Boards would now be well versed with the enterprise's operations and thus able to guide the management.
3.4.1.4. **Staffing of Public Enterprises**

Public Enterprises, as has been noted earlier, have often been used to implement government social objectives. In this case, the Kenya Government has often used public enterprises to alleviate the high unemployment crisis in the country.

In 1978, the government issued a directive that all public enterprises increase their staff force by 10%. This government policy did not take into account the size of the organization, nor the number of the current employees or even the profit margin, if any. It was then a case of approved and official overstaffing despite the fact that "overstaffing not only reduces the profit margin of the enterprise concerned but can also in fact reduce the total output per man" (Rweyemamu, 1975: 249).

Apart from the above, overstaffing leads to poor utilization of the employed staff due to lack of an adequate work distribution, a non-existent job description and high expenses. Last year (1990), the Minister for Transport and Communications was reported in the local press as having said that "the airline (Kenya Airways) was grossly overstaffed and its 4,000 workers far exceed the workforce to run its assets" (Daily Nation, April 20, 1990). The airline was reportedly said to have been overstaffed by 100% (2,000 employees), thereby loosing Sh 110 million per year in wages (Daily Nation, May 5, 1990). A lot of public resources are then wasted this way.

There is heavy reliance on patronage (political and ethnic) in
the appointment of especially the chief executives of the public entreprises. The appointment is regardless of whether those appointed have the necessary qualifications or not, and more often than not, they do not.

However, lacking the necessary bio-data of various heads of these enterprises, the study is reluctant to give specific examples. This is mainly because, in the midst of the political/ethnic patronage, some of those appointed have the necessary qualifications.

Nevertheless, the study can make generalisations since those with the necessary qualifications are few in relation to the total number appointed.

Hence, the study concurs with Shirley's observation that "top executives of SOEs (State Owned Enterprises) are recruited from the ranks of the civil service or the military" (Shirley, 1983:49). In addition, ex-politicians and party officials are appointed to head public enterprises. Moreover, some people are given responsibilities of manning more than one public enterprise. This obviously reflects the appointer's trust in the person and the fear of giving the job to an "outsider". It is also a reward mechanism. The point to note here is that, most of these people are appointed for reasons other than their business acumen.

Therefore, political patronage plays a very great role in the appointments. The main reason why this is so is that, more often than not, such appointments ensure political loyalty. Moreover, the hand-picked individuals are to be found in almost every public
enterprise, and more so in the key public enterprises. In this regard, personal loyalty and ethnicity seem to go hand in hand. On ethnicity, an observation was made to the effect that,

"Tribal appointments are a particularly familiar concept in African countries where the motivating factor in the leaders has been the consolidation of power. Within multi-ethnic societies where tribal loyalties are a major political force, a leader tends to feel more secure when surrounded by people on whose loyalty he can count" (Weekly Review, March 8, 1991).

The staffing problem is therefore exacerbated by the unsound recruitment policies. The Chief Executives, as we have seen above, are politically appointed and obviously their tenure in the public enterprises are politically protected. Because of this political protection, coupled sometimes with lack of know-how, these heads often give directives which are contrary to the philosophy of these enterprises. No wonder that last year, the Minister for Industry observed that some public enterprises were run by Managers who were not enterprising and who could not put forward any meaningful proposal to improve the performance of the enterprises (Daily Nation, May 8, 1990). Soon after, the same executives came under the wrath of the President. He accused them of "engaging in empty talk, backbiting and 'fitina' (malice) instead of making their firms financially productive and self-reliant" (Daily Nation, November 2, 1990). The situation is such that, being aware that they will retain their positions as long as it takes to annoy their appointers (patrons), they use their positions to enrich themselves, or as a stepping stone to loftier ambitions, usually entry into politics.
It is therefore ironic and face-saving for complaints to come from such quarters, for it is the same people who have given the executives the political backing, and enabled them not only to enrich themselves and over-employ, but also to employ their kith and kin. The executives always tend to fill the enterprises with people from their own ethnic groups. In the country today, this legacy still remains in institutions that experienced this trend during the Kenyatta era. For example,

"even though the Central Bank of Kenya is today headed by a Kalenjin (Mr. E.C. Kotut) --- more that half of the total workforce consist of Kikuyus, the vast majority of whom come from Nyeri, courtesy of the sixteen year reign of the bank's Nyeri District former governor, Mr. Duncan Ndegwa. By the same token, the number of Kalenjins employed in public enterprises headed by Kalenjins have witnessed a disproportionate increase. This trend --- has --- been practised by heads of institutions from many other tribes" (Weekly Review, March 8, 1991).

In support of the above, we find that the Kenya Posts and Telecommunications Corporation is alleged to be filled with people from a certain ethnic group from the Rift Valley. It is also in this light that the Kenya Commercial Bank, under the Chairmanship of Mr. John Michuki was nicknamed the Kikuyu Commercial Bank for allegedly favouring the Kikuyus in employment.

The low public enterprise salaries have also affected the calibre of staff to be found in these enterprises. This is inspite of the theory discussed in Chapter Two to the effect that one reason for establishing public enterprises, especially corporations, is to allow for higher remuneration. Notwithstanding, these salaries are not competitive enough to allow the retention of staff and also to act as an incentive to attract
new ones. According to salary structures, public enterprises are
grouped into categories which range from category A to category F
(See Appendix II). Salaries for public enterprises in Categories
A, B and C are fairly attractive and almost in line with those paid
in private enterprises of similar nature. However, for those in
category E and F, the salaries are too low and quite comparable to
those paid in the Civil Service. A Chief Executive of a public
enterprise in Category E earns a minimum salary of Sh. 10,990 in
the scale of K£ 6,594 x 252 - 7854 x 288 - 8718 p.a (O.P.
Circular No. 1/87 of 12th July, 1987). Therefore, and as pointed
out in Chapter five, the management staff in such corporations earn
anything between Sh 4,000 - Sh 8,000, with the Unionised staff
earning below Sh. 4,000. Such salaries no doubt act as
demotivaters and lead to high staff turnovers. This is another
explanation for the lacklustre performance of public enterprises in
Kenya.

A look at some of the public enterprises in Category E shows
that they are all poor performers. These include:

- The East African Sugar Industries Ltd. It was declared
  bankrupt by end of June 1988 because of showing a deficit
  of Sh. 311 million (Daily Nation, March 26, 1990).

- The Kenya Cashewnuts Ltd. It was closed in February 1990
  after failing to pay its creditors and cashewnut farmers
  a total of over Sh. 80 million (Daily Nation, June 12,
  1990). It was however re-opened five months later.

- The Kenya Post Office Savings Bank. The bank was
  recently reported to have suffered heavy losses from some
  of its investment schemes. These include the premium
  bonds through which the bank lost over Sh. 6.94 million
  in one year and the fixed deposit scheme which also
  reported a deficit of Sh. 132,000 (Daily Nation, Nov 12,
  1990)
The South Nyanza Sugar Company Ltd. Its audited reports for the year 1988/89 revealed some irregularities which included the sale of the company's assets and overpayment of ten senior staff (Daily Nation, Dec. 10, 1990).

As mentioned in Chapter Two, there are many benefits accrued from involving employees in decision making, all culminating in higher enterprise production. Despite this, we find that employees are never involved in decision making. They just hear of a decision made, or read it from an enterprise's internal memo. Therefore who makes decisions?

Generally, decisions in public enterprises are to a very small extent made by the Management or even the Boards of Management. The only decisions that these people make are of very minor consequences, such as sacking or employing a junior officer. The Management itself fears to be blamed by the Board in case it makes a decision and it turns out to be wrong or unfavourable. As a result, it pushes the responsibility to the Board which also fears to be blamed by the Ministry or the Government. In essence, therefore, public enterprise decisions are made by the Government. The Government, as we have seen above and in the last section, can sack (public enterprise heads and Boards of Management) as easily as it can appoint. The end result to the employees is obvious: low morale. See also Section 3.4.1.2 on Control.

Therefore, from a staffing point of view, overstaffing, political patronage, low salaries and the general lack of any motivating incentives together with the non-inclusion of staff in decision making, have been some of the factors that have
contributed to low production and hence the poor performance of these corporations.

3.4.1.5. Issue of Monopoly

The government usually establishes public enterprises as natural monopolies thereby shielding them from any form of competition whatsoever. From Appendix I, column three, 68% of the 77 public enterprises listed are monopolies. This figure includes those listed as N/A (Not Applicable) such as Regional Development public enterprises, Research and Educational oriented public enterprises, among others. Thus only 32% of the public enterprises are competitors.

Therefore, by establishing them as monopolies, the government hopes to reap the maximum benefits accruing from these enterprises. However, this is usually not the case, for instead of boosting the enterprises, the monopolistic nature of the enterprises arguably leads to poor performance. One, the monopolistic nature of enterprises leads to the laxity of the managers. Secondly, the enterprises lack the efficient - enhancing pressure of competition (Nellis, 1986) and hence poor performance.

Without any competition, public enterprise managers lack the motivation to better or even maintain the standards of their
products or services. In the end, the products/services deteriorate to alarming levels. For example, the Horticultural Crop Development Authority (H.C.D.A) and the Kenya Railways Corporation are notorious in rendering poor services to farmers and customers respectively. To begin with, H.C.D.A has not only been faced by inadequate markets but also lacks refrigeration facilities for storage of the farmers products which are highly perishable. On its turn, the Kenya Railways seems to suffer from interminable derailments, among other things.

However, for better products and services, the government seems to have realised the disadvantages of monopoly and is beginning to allow competition for efficiency and good performance. For example, Kenya Posts and Telecommunications Corporation became the first monopoly to open its doors to external competition with regard to telecommunication services (Daily Nation, June 5, 1990). This was welcome news as there had been a public outcry over the deterioration of its services, i.e. the long period taken to instal telephone facility after one has applied, long delays in repairing faulty telephone lines, poor service and long queues at the service counters, inflated telephone and telex bills, etc. It is the public's hope that these are now going to be things of the past.

Secondly, the Government has allowed private air companies to compete with Kenya Airways on domestic routes. The public enterprise, whose financial performance has been dismal leading to the sacking of its Board will for the first time face competition
on the major domestic routes (The Standard, April 14, 1991). See Sections 3.4.1.3 and 3.4.1.4.

Thirdly, the National Cereals and Produce Board has also announced its intention to give private agents the go-ahead to compete alongside it in the buying and selling of cereal products (Daily Nation, April 25, 1991).

There is a great need for other public enterprises to follow suit as competition leads to greater efficiency as an enterprise strives to maximize profit in a competitive market (Shirley, 1983). "Competition in the provision of goods and services is the sure-fire recipe for efficiency and customer satisfaction" and "for best services, competition must be allowed" (Daily Nation, June 6, 1990).

Furthermore, competition removes laxity and enhances creativity and motivation to produce and supply goods and services to customers' satisfaction. It mobilizes the employees to do better and to outdo their competitors and even desire to see them go out of the market. Competition satisfies the people's urge to work, hence good performance of the enterprise.

3.5. Divestiture as Final Managerial Solution

Students of public enterprises have often argued that one of the reasons why public enterprises have performed poorly is because governments have created public enterprises indiscriminately as a cure for any pressing economic, social and
administrative problems (Hanson, 1959; Amara, 1976). Kenya is no exception, as public enterprises are sporadically established, and in a like manner, as an answer to economic, social and administrative problems. For example, the elevation of Kenyatta National Hospital, National Hospital Insurance Fund and National Social Security Fund from government departments to public corporations seems to be nothing more than an effort to solve the administrative problems facing the institutions. This stems from the belief that public enterprises are more efficient than government departments.

This proliferation of public enterprises, and more so for what appears to be less than adequate reasons, has increased the number of public enterprises in Kenya. As Hanson observes, albeit in a general context, "the task of coordinating and directing the activities of the growing multitude of so-called independent agencies among which the economic responsibilities of the government are fragmented becomes beyond anyone's capacity" (Hanson, 1959: 348). For example, the Ministry of Agriculture alone has over eighteen public enterprises under its jurisdiction, and out of these only about eight perform efficiently (Inspectorate of State Corporations, Public Enterprise list dated 24th July, 1989).

Apart from their numbers, public enterprise failure can be attributed to poor feasibility studies (Nellis, 1986) due to lack of competent and detailed pre-investment surveys and market research. For example, since inception, the troubled Kenya
Cashewnuts Factory has always operated under capacity—below the 15,000 tonnes of cashewnuts it was supposed to process every year (Daily Nation, May 2, 1990). The factory's feasibility study failed to forecast on the supply of cashewnuts to the factory and to thereby establish a factory whose size was commensurate with the supply of cashewnuts. It is then not a wonder that the factory was closed in February 1989 after failing to pay its creditors and cashewnut farmers over Sh. 80 million (Daily Nation, June 12, 1990).

The now infamous Molasses (plant) utilisation complex at Kisumu was started in 1977 under the name of Kenya Chemical and Food Corporation, a joint venture between the Government and the Madhvani Group. The Government held the controlling interest with 51% of the equity. The corporation was designed to produce power alcohol, citric acid, baker's yeast, vinegar and anamet. By the time construction stopped in June 1982, the two investors had sunk Sh.1.08 billion and still needed a further Sh.273 million to have it completed. Further, the Government was paying Sh.158.8 million every six months to foreign creditors to honour its guarantees for the project. However, in March 1991, the Receivers and Managers, Bellhouse Mwangi, Ernst and Young published an intention to sell the entire complex and its assets (Daily Nation, March 25, 1991) despite the fact that the project was never completed. This is the end result of poor feasibility studies. Hence the Working Party on Government Expenditures noted that,

"Lack of advance planning, adequate safeguards for Government investment and good management --- has resulted in
uncontrolled cost escalations, inefficient technologies and unprofitable enterprises. In many of these cases Government participation --- was not essential to the establishment of the enterprise, but rather a profitable convenience for the promoters" (Ndegwa, 1982:42).

The take-overs of ailing private businesses by the government also explains the poor performance of public enterprises since rarely do these enterprises perform favourably. According to Colin Leys, there is "--- room for doubt as to the significance of some of the government's investments. Some of I.C.D.C. investments were in old businesses which the original Industrial Development Corporation had been set up to rescue during the Emergency, and which were still making a loss, or in later years loss-makers like Kenatco" (Leys, 1975:132).

All the above, the increased proliferation, poor feasibility studies, and the take-overs point to the need for divestiture. This is because more and more public enterprises continue to perform poorly and the situation seems to be irreversible.

According to the audited reports of public enterprises by the Auditor-General (Corporations) presented in Parliament in 1990, the East African Sugar Industries in Muhoroni was bankrupt after showing a deficit of Ksh. 311 million by the end of June 1988. Salt Manufactures of Kenya Ltd. had a negative working capital of Ksh 13.9 million and was unable to meet its current obligations. Its annual reports and accounts for 1989 had therefore been prepared on a going concern basis assuming that creditors and commercial banks would continue to give it financial assistance. Also, the accumulated deficit of the South Nyanza Sugar Company
(Sony) was a whopping Ksh. 1.12 billion. In the case of Sony, for instance, ksh. 807 million had been written off by the end of the 1988 financial year and the Government had taken over all the overseas loans and a bank overdraft of Ksh. 40 million which the company could not service. However, its performance did not improve (Daily Nation, March 26, 1990; March 27, 1990; April 12, 1990).

This is a clear case for divestiture. Since the government has tried to reactivate some of its loss-making public enterprises but to no avail, even after spending millions of shillings, advocates of divestiture argue that a time has come when it (the Government) should cease to come to the enterprises' aid, and instead of pumping more public funds into ailing enterprises which may never recover, it should take the more rational option of selling such firms to the private sector.

The Ndegwa Report also noted the importance of the Government to divest itself of the ailing corporations. It observed that "the Government should not continue to respond without question to requests for new funds from parastatals". Rather, "it is now a matter of high priority for the government to reverse this trend by working out a viable programme for divesting itself of some of its investments" (Ndegwa, 1982:41 - 43). This is because, given that some of the losses have been built up over the years, it is a cliche that only a miracle-worker manager will provoke an upward swing in the performance of these public enterprises (Daily Nation, March 27, 1990). Accordingly, the National Construction
Corporation was liquidated in 1987 after years of continued losses. Also to face the same wrath was the Kenya Fishing Industries which was liquidated and purchased by private businessmen. Further, Ceramic Industries (EA) Ltd is currently on sale.

According to the World Bank reports (Shirley, 1983; Nellis, 1986), governments should stop rejuvenating their loss-making public enterprises. Instead, it should sell to the private sector (privatization) those which can be sold, and for those which cannot be sold, it should close them down and liquidate their assets (Liquidation). In this connection, enterprises such as Uplands Bacon Factory, Kilifi Cashewnuts Factory, Sony, East African Sugar Industries, Salt Manufactures of Kenya Ltd, Yuken Textiles, etc should perhaps be considered excellent candidates for privatization or liquidation and any efforts at revitalization stopped, as chances are that they will never be profitable as long as they remain in the public sector. Moreover, the current structural adjustment programmes which are a component of the ongoing economic reforms recommend that Governments should divest themselves of some of the massive state investments, profitable ones included.

In line with the structural adjustment programmes, the Government has at last shifted from its rhetoric to divest itself of public enterprises organizations which have ceased to have any practical relevance to the economy, except as insatiable guzzlers of subsidies from the Exchequer. In response, a Parastatal Reform Committee was recently appointed by the President to supervise the
sale of Government interests in non-strategic public enterprises. The Committee is chaired by the Vice-President and its members include Cabinet Ministers, Senior Civil Servants and some members from the private sector. Its terms of reference are:

- To supervise and co-ordinate the implementation of; Parastatal Reform Committee;
- To examine the financial position of all non-strategic parastatal enterprises;
- To value the assets of parastatals offered for sale;
- To determine an appropriate method of divestiture of each non-strategic parastatal;
- To determine the terms and conditions of the sale of each enterprise;
- To determine those parastatals that should go public and to advice the Capital Markets Authority accordingly. (Daily Nation, July 5, 1991)

As has been noted above, the Government is only committed to sell the non-strategic public enterprises. It has therefore defined strategic public enterprises as those enterprises deemed to be vital to "national security or contingency and those providing essential goods and services" (Daily Nation, April 17, 1991). All those that do not fit the definition will be regarded as non-strategic.

Under this definition, public enterprises such as Kenya Posts and Telecommunications Corporation, Kenya Power and Lighting Corporation, Kenya Pipeline Company, the proposed Kenya Airports Authority, the Kenya Ports Authority, and may be, Kenya Railways, could be classified as strategic. (Kenya Airways has already been identified as one of the non-strategic public enterprises and is to go public by 1993. SwissAir has signed a contract with the airline to help it go private by that date (Daily Nation, July 2, 1991). The Government's argument is that, given the nature of services
that the strategic public enterprises render, it may be unwise to let these corporations go to the private sector. This may well be the case, although it is a known fact that in other countries - notably the industrialised nations - such corporations, too, have been privatised by up to 50 per cent. Governments there control 49 per cent and allow the companies to be run purely as private concerns.

But the main issue is not so much which enterprises the Government chooses to retain, but the extent to which they can be run profitably. We note here that, even among the so-called strategic enterprises, very few - i.e. KPLC and KPTC - have consistently declared profit. Even here, given recent trends, there is no guarantee that their past performance will be carried forward into the future.

3.6 Summary: Performance of Public Enterprises in Kenya

The origin of public enterprises in Kenya dates back to the colonial period, whereby they were established to cater for the settler interests. However, it is after independence that the country witnessed the proliferation of public enterprises and this time meant for the welfare of all. As in other parts of the World, this rapid increase has been the result of practical necessity, economic development, defence and strategic considerations, and the country's political philosophy.

Irrespective of the reason, the form and the organization
type, public enterprises in Kenya have become a resource drain of the Exchequer. This poor performance has largely been attributed to managerial inadequacies. But more specifically, the nature of their objectives, the excessive control, the poorly constituted Boards, the unprecedented staffing procedures and their monopolistic nature are easily identifiable as the main causes of mismanagement.

However, as pointed out in Section 2.6 and elsewhere in the thesis, the best way to assess performance is to look at the performance of the Management Functions; and these have been analysed in the next two chapters.

Therefore, the study contends that the only way to end the profligate inefficiency of these enterprises is for the Government to divest itself of both loss and profit making enterprises. Luckily, and in line with the structural adjustment programmes, the Government has at last come up with a plausible policy on public enterprises and has in effect appointed a Parastatal Reform Committee to supervise the sale of its interests in non-strategic public enterprises. Needless to say, the extent and the manner in which the Committee is going to perform its duties is of great interest to students of public enterprises in Kenya.
4.1 Introduction

The Kenya Meat Commission Headquarters is situated in Athi River, Machakos District in an area covering 2,063.6 hectares. Taken over by the Kenya Government with effect from 1st June, 1950 the Commission is the offspring of a small meat factory, the Liebig Brooke Bond Company, which was set up in Athi River by Messrs. Liebig in 1938. Liebig Brooke Bond Company was started during the colonial era in order to cater for European Settlers who operated cattle ranches in the Athi-Kapiti Plains. Liebig's aim was to establish a meat processing plant which would buy the increasing supplies of cattle from the European settlers and process them for export as low local demand for meat meant there was a surplus. However, when the Government took over the plant, the "aim was not primarily export oriented, but to create a parastatal institution to safeguard the interests of local livestock producers (especially settler interests) and consumers, and to process and can livestock products for export or local consumption" (Kivunja, 1976:159). Accordingly, the Kenya Meat Commission became the only institution in Kenya slaughtering and processing cattle and smallstock both for local consumption and export market.

The Commission was established by an act of Parliament on 1st June, 1950 under the Kenya Meat Commission Act (Laws of Kenya, Cap. 160.
363,1972), with the Government retaining a 100 per cent shareholding. Thus, as noted in Chapter Two, the Commission was established as a public corporation. The establishing Act, including subsequent amendments, empowered the Commission to:

- purchase and sell cattle and smallstock including live imports and exports;
- control the entire trade in Kenya of slaughter stock and the establishment and operation of abattoirs and meat by-product processing facilities;
- establish and operate abattoirs, cold storages and other wholesale distribution facilities for meat and by-products for both the domestic and export market.

Consequently, the Government charged the Commission with the responsibility to establish a slaughter-stock and meat processing monopoly in Kenya. According to Chapter Two, the motive for establishing the Commission was economic development, whereby, the Government expected to benefit from the accruing profit. The Government at the same time hoped to bring economic development to the people from the purchase of their livestock. Therefore, no other body was to engage in domestic and foreign trade in meat unless it first obtained a special permit from the Ministry of Agriculture which was then responsible for the Commission.

The Commission's main plants are at Athi River, Mombasa and Halal. Athi River, which is 41 km from Nairobi, is the flagship of the Commission's operations. This plant is a fully integrated meatworks with a capacity to slaughter upto 900 cattle and 700
smallstock in a single shift. It has facilities for offal production, boneless meat production, rendered products and canned goods.

Mombasa is also a fully integrated plant with a capacity of 350 cattle per shift. It has facilities for offal and boneless meat production and rendering facilities for waste material. The plant is located on a peninsular near the Makupa causeway to Mombasa island. Both Athi River and Mombasa are the only plants in the country which are approved by the Government for the export of beef and mutton.

Halal, near Ngong, was operated by KMC from 1984 to 1987. It is a private sector venture integrated meat works which is approximately 25 km south west of Nairobi. It has a kill capacity of 40 cattle per hour and in the case of smallstock, it has a capacity of 80 per hour. Kenya Meat Commission has never been the owner of the plant, which was constructed in 1971 but not operated commercially until it was requisitioned by the Government in 1984 to provide additional capacity for the emergency slaughter of animals in that year of drought. Further, the requisitioning was in order for the plant to cater for the Nairobi domestic market while Athi River concentrated on the then profitable export market.

Halal also used to provide a slaughter service for animals owned by others. This service used to be very popular with those private sector meat traders who supply the quality end of the Kenya beef market. Halal's basic slaughter price at KShs.85 per head including inspection fees were slightly less than those of the
principal competing slaughterhouses in Dagoretti, Waithaka and Ong'ata Rongai. Moreover, Halal possessed the twin advantages of producing a much more hygienic product and could, for an additional fee of KShs. 15 per head, provide full chilling facilities which the competing abattoirs do not possess.

The Kenya Meat Commission also has cold storage and wholesale meat depots in Nairobi and Mombasa. The Nairobi Depot, commonly referred to as the Landhies Road Depot, is located along Landhies Road near the Machakos Country Bus Station. It handles meat and offal distribution for the domestic market. On the other hand, the Makupa Cold Store in Mombasa is a self contained cold storage facility. It is located in a commercial area of Mombasa, approximately 3km from the Mombasa abattoir on a 4200m² wide area.

The Kenya Meat Commission also has several holding grounds. As the name implies, the holding grounds are used for holding animals in reserve close at hand to the two main factories. The holding grounds are in prime use during drought periods when deliveries exceed the plants' capacity utilization. The Commission's holding grounds include Beacon Ranch, Bombing Range, Kitengela and Mackinon Road Ranch. The first three serve the Athi River plant and are all within 8km from the plant. The latter, the Mackinon Road Ranch, serves the Mombasa abattoir and is approximately 100km from Mombasa on the Nairobi-Mombasa road. All the four holding grounds comprise over 13,000 hectares (U.I.C. Report, 1989).
The Commission is expected to play an important role in national development, from its purchases of livestock down to the final products. In purchasing livestock and especially as the buyer of the last resort, the Commission is able to sustain the living of a majority of livestock farmers most of whom are pastoralists and their only source of income is livestock from whose sales they earn their daily bread.

The Commission's primary product is beef. Beef, together with other secondary products create vital forward linkages with other industries. From meat, bones, liver, hoofs, horns and blood meat, the factory for instance supplies commercial feed manufacturers with some of the inputs necessary for the production of a complete meal of layers mash, dairy meal, pig finishing and dog meal. Here it can be recalled that feeds quality dropped when Kenya Meat Commission closed down in 1987 culminating in an outcry by farmers in poultry, pig and dairy business. This is because the private abattoirs could not supply enough of such inputs or their structure could not allow for such supplies. As such, the country mainly relied on imports to the detriment of the country's balance of payments.

The Commission also has a long history of association with the shoe industry. It supplies this industry with hides that go to make shoes. From tanned hides, belts, bags, jackets, wallets, hats and mats are also made. The factory further supplies tallow, an important input in the manufacture of shoe polish. Tallow is also an important ingredient in the production of bar and toilet soaps.
The popular food additives of Mchuzi Mix and Knorr Beef Cubes, are made from beef extracts supplied by Kenya Meat Commission. Indeed, beef extracts go into the making of other laboratory media useful in the production of food items and other additives.

From the gut of a cow, the Commission is able to supply not only the popular brand of meat popularly known as "matumbo" but also inputs for the production of surgical threads, table tennis nets and sausage casings. By so doing, the Commission saves the country foreign exchange which would otherwise go into the importation of such threads and casings or their synthetic substitutes.

Tail switches, commonly known as fly whisks for the older folk and a status symbol of African leaders, find useful importance in the production of wigs, designer brushes and in harnesses (Finance Magazine, 16-31 May, 1990; KMC Product Catalogue).

The above breakdown shows that from the initial purchase of livestock, down to the primary and secondary products, the Commission is able to support a host of numerous other economic activities critical to national development. These activities create income and go a long way in alleviating two of the most pressing problems in Kenya today: unemployment and scarcity of foreign exchange.

On beef production and supply, we find that traditionally, the main urban markets of Nairobi, Mombasa, Nakuru, and Eldoret (until 1968) were supplied meat through the Kenya Meat Commission whilst the rural and smaller urban centres received their supplies of meat.
from local abattoirs and butchers. As Kenya Meat Commission foundered and was unable to meet the supply requirements of the large centres, the local butchers rapidly stepped in to fill the gap.

Consequently, at the other end of the spectrum from the Commission is the private sector. Meat business is an area where African entrepreneurs easily achieve a foothold (Aldington and Wilson, IDS DP. No. 70, 1968) and as such the private sector competes with the Commission. The competition is compounded by the fact that, though Kenyans are good meat eaters, few care much about the grade or cut of the meat. To them, meat is meat. This issue of competition is discussed fully in Chapter Five.

In October 1987, the Commission was declared insolvent. With insolvency, it became necessary for all employees to be laid off. This was done on 31st October, 1987 at a cost of K£1,045,542 (K.M.C. Annual Report, 1987/88) provided by the Government to settle the workers' final dues. From 1st November, 1987 the Ministry of Livestock Development took over the day to day running of the Commission on a caretaker basis assisted by a skeleton staff of 235 workers retained to man the essential operations.

4.2 Management Structures

Management structures are important in the assessment of an organization's management and hence its performance. This study has therefore looked at both the internal and external structures
in order to bring out the internal and external components of the Commission and to show in what environment it operated.

4.2.1 Internal Management Structures

As internal management structures, the study looks at the objectives, the organizational chart and the operational model of the Kenya Meat Commission.

4.2.1.1 Objectives of the Commission

The Kenya Meat Commission was established by an Act of Parliament on 1st June, 1950. This Act is described as:

"An Act of Parliament to establish a Commission to purchase cattle and livestock, and to acquire, establish and operate abattoirs, meat works, cold storage concerns and refrigerating works for the purpose of slaughtering cattle and smallstock, processing by-products, preparing hides and chilling, freezing, canning and storing beef, mutton, poultry and other meat foods for export or for consumption within Kenya, and to confer certain exclusive rights upon the said Commission, and for other purposes incidental thereto and connected herewith" (Laws of Kenya, Cap. 363, 1972).

The Commission, as stated earlier, was given the monopoly power to buy livestock and sell meat both at the domestic and international market. According to Section 7 of the Kenya Meat Commission Act, no other person other than the Commission was to "erect, establish, or operate any abattoir --- for the purpose of slaughtering cattle and smallstock, processing by-products --- either for export or for consumption within Kenya, except under and
in accordance with a licence which may be granted by the Minister after consultation with the Commission" (Laws of Kenya, Cap. 363, 1971). This section enabled Kenya Meat Commission to curtail competition by overseeing the issuing of licences to other slaughterhouses. Hence, the Act guaranteed the Commission full control of the domestic market, such that no person or company was empowered to engage in the meat industry without written permission from the Ministry of Agriculture, then responsible for the Commission, in consultation with the Commission. Moreover, the Act also empowered the Commission to be the sole exporter of meat and meat related by-products. Consequently, the Government's wish was for the Commission to establish a slaughterstock and meat processing monopoly in Kenya.

Therefore, the Commission was basically protected from any undue competition. In giving the Commission such powers, the Government then saw it as a commercial enterprise that would be able to generate profit for the benefit of the Exchequer. Furthermore, through the protected meat export venture, the Government hoped that the Commission would increase the country's foreign exchange. In other words, using categories developed in Chapter Three and in Appendix I, it would be categorized as a business organization.

However, the Commission was also conferred with social objectives. As a policy instrument, the Government hoped to use the Commission to implement certain national policies concerning the livestock sector. Hence, the Commission was to be a buyer of
last resort during drought seasons and to act as a price stabilizing agency in the livestock industry. Like other public enterprises which were noted in Chapters Two and Three, the Commission's objectives were a combination of both commercial and social objectives. The social objectives are analysed here below.

As the last buyer during drought periods, it is important to look at the reasons behind such a government policy. In this context, it should be noted that more than 50% of beef cattle in Kenya are reared in semi-arid to arid areas (Odhuba, 1986) and these areas accommodate about one fifth of the human population (Central Bureau of Statistics, 1984). Due to the fact that the land is unsuitable for cultivation, the main economic activity of the residents of these areas is cattle rearing, and this is done in "direct conflict with the largely seasonal availability of pasture" (Odhuba, 1986:5). As a result, during drought periods, there is a likelihood of serious loss of animals. To avoid this loss, the government directed the Commission to be buying these animals, irrespective of their state of emaciation. Of importance to mention here is that the private slaughterhouses are unwilling to buy such low quality animals, and in the few times when they do so, they mercilessly exploit the pastoralists. Hence, in an end to cater for the welfare of the pastoralists, the Government, through the Commission, has no alternative but to step in and assist them.

As a price stabilizing agency, the Commission had no power to institute the buying and selling prices of its products. Prices of beef at producer, wholesale and retail levels were government
controlled by the Agriculture and Price Control Acts. The Government fixed the prices which the Commission paid to producers as well as the wholesale prices. Both of these prices fell within the stated minimum and maximum limits. These prices were "usually stepped up at the beginning of the year and remained fixed until the following year" (Kivunja, 1976:180). The Board of Commissioners managing the Commission had no authority to alter the prices and any price alterations it made had to be sanctioned by Parliament. Needless to say, the process was a lengthy one and out of control of the Commission. However, by controlling the prices, the Government sought not only to protect the producers and the customers but to also stabilize the livestock and meat industry.

4.2.1.2 Organizational Chart

When established in 1950, the Commission was placed under the overall control of the Ministry of Agriculture. Subsequently, this Ministry was later divided into two Ministries and the Commission became a responsibility of the new Ministry of Livestock Development.

The Organizational Chart of the Commission as depicted in Figure 4.1 shows that the overall control of the Commission rests with the Ministry of Livestock Development, then follows the Board of Commissioners, the Executive Chairman and the Managing Commissioner before one comes to the entire Management group.

The entire management staff comprises of approximately 118
members (KMC Annual Report, 1986). The head of the management staff is now the Executive Chairman assisted by the General Manager. The other management staff are spread out in various distinct departments that have an overall in-charge and a deputy. For example, the Personnel Department is headed by the Personnel and Training Manager and below him is the Senior Clinical Officer, the Personnel Officers, Medical Assistant and the Personnel Assistant. Likewise, the Livestock Manager heads the Livestock Department assisted by Assistant Livestock Manager, Field Officer and Senior Administration Assistant.
Figure 4.1: Kenya Meat Commission - Organization Chart

Ministry of Livestock Development

Board of Commissioners

Managing Commissioner

Halal Manager

- Factory Accountant
- Purchasing Officer
- Div. Supt.
- Maint. Supt.

Mombasa Manager

- Sales Manager

Security & Transport Manager

- Security Officer
- Transport Officer

Personnel & Training Manager

Livestock Manager

Operations Manager

Finance Manager/Secretary

Production Foreman

- Security F/Man

Maintenance Superintendent

- Assist. Sales Manager

Retail Sales Manager

- Consumer Sales Officer

Process Quality Controller

- Shipping Officer
- Depot Supv.
- Sales Liaison Assit.

Chief Engineer

- Chief Engineer

Factory Manager

- Assistant Factory Manager

Canning Manager

- Assistant Canning Manager

Chemist

- Chief Chemist

Buyer

- Chief Buyer

Purchasing Officer

- Stores Controller

Source: KMC Personnel Department, April, 1990
4.2.1.3 Operational Model

Our survey of Kenya Meat Commission at Athi River abattoir revealed that several stages are involved in the handling, slaughtering, processing and disposal of Kenya Meat Commission output.

After the delivery of cattle to the abattoir, either by train, truck or on hoof, they are received at the reception yard "observation ante-mortem". Examination is done by inspectors of the Veterinary Department attached to the Commission. Conspicuously indisposed animals are quarantined in "suspect assembly pens" until clinical investigations have been carried out on them. Healthy animals are held in the rest of the holding pens, called bomas, for twenty four hours awaiting slaughter while those that die while in transit to the Commission are transferred to a pressurised digester located just next to the boma, which
fluidflies them into inedible fat.

The boma consists of various pens. The animals delivered are not supposed to mix and so each supplier's stock is put in a different pen. Segregation helps in the verification as a supplier is required to bring in an equal number to the one specified in the delivery order. Verification against the delivery order is very important as it helps curb any stock theft. The supplier must also have a veterinary officer's movement permit certifying the health of the animals and whether or not the area is under quarantine.

The holding of animals at the boma for twenty four hours is meant to remove any excitement the animals might have. This is because, on arrival, the animals are in an excited state, and killed in this state, blood would clot in the muscles and this would lower the grade of the meat. Hence, within the twenty four hour period, the animals rest and the excitement diminishes.

After the animals have rested, an advice of kill is given by the boma (section) advising the Killing Floor the mob numbers. For example, that mob one has twenty animals, mob two seventy five animals and so on. This type of advice avoids the mix-up of animals and eases identification as payment is on CDW basis.

At the Killing Floor, dressing is done. The skin and the abdominal organs are removed and taken to the by-products section. The carcass is then inspected by meat inspectors from the Veterinary Department of the Ministry of Livestock Development. They grade the carcass into five grades or generally into high grade and low grade. These meat inspectors are independent persons
such that if they condemn an animal, the supplier is not paid and their decision is unquestionable. This independence makes the meat inspectors to be viewed at as arbiters acting for both the supplier and the Commission. It is after the inspection that the carcass is weighed and the supplier paid for his animals.

In the case of animals arriving at the abattoir dead or die while at the boma, they are ultra heated to produce inedible fat that goes into soap manufacture. Likewise, condemned animals together with the inedible offal goes into the making of animal feed.

On arrival, animals suspected to be sick are first put in a 'hold' position to await further diagnosis and treatment. They are later killed but categorised in the lowest manufacture grade. Processes followed in disposing the carcass are similar to those of cattle readily accepted on arrival.

Figure 4.2 clearly illustrates the processes. The processes occur in well defined departments respectively known as the Livestock Department, Killing and Grading Department, Cut Beef Department, Boning Department, Offal Department, Despatch Department, and Hides and Skin Department. From these departments, meat is either transferred to the Commission's depot at Landhies Road, Nairobi for local distribution, or exported in the various forms shown on the model. The end products from the entire flow are shown on the model.
FIGURE 4.2: OPERATIONAL MODEL OF KENYA MEAT COMMISSION

CATTLE DELIVERIES

DEAD CATTLE  ACCEPTED CATTLE  SUSPECTED CATTLE

BOMA

KNOCK BOX  HOLD  TREAT

KILLING FLOOR

ULTRA HEAT SETERILISATION

INDIIBLE FAT

HIGH GRADE CARNASS  LOW GRADE CARNASS

PRE  H.G  COM  COM  MAN

CHILLING ROOM

CUT BEEF DEPT.

QTS  W/S  SP/C

FRESH  FAT/BONES

SOULFACON TRANFACTURE

LOCAL

BEEF  BEEF  BEEF  PISTOL  CORNED

OPEN  FROZEN  EXPORT  EXPORT

SOF/  FRESH  LOCAL/EX

SOUP  ANIMAL FEED

5TH QUARTER  HIDES DEPT.

SOUP  CORNED

LOCAL/EXPORT  LOCAL/EXPORT


KEY:
PRE - Premium Grade MAN - Manufacture Grade QTS - Quarters H.G - High Grade COND - Condemned W/S - Whole Sides
STD - Standard Grade IN-OFS - Inedible Offals SP/C - Special Cuts COM - Commercial Grade
ED-OFS - Edible Offals Ex - Export
Grading of slaughter cattle is carried out after slaughter when the carcass has been dressed and cut into sides. This is the most efficient method of grading beef animals as opposed to liveweight grading. However, from the producer's point of view, CDW has certain disadvantages in that payment is delayed, the supplier is inevitably committed to the sale and also the fear of collusion between the meat inspectors and the Commission.

Through a grading system, the interests of different groups of people are easily met. Producers and traders may seek to increase their returns through the widening of quality price differentials which a grading system may involve and the consumer may gain through the use of grading system by being able to express a preference for a certain quality of meat. According to Aldington and Wilson "the basis for any grading system is that grades must be meaningful to consumer and consumer preferences should be effectively communicated back to the producer" (Aldington and Wilson, IDS OP No. 3, 1968:182).

The present beef cattle grades in Kenya which became effective in 1985 are as follows:

- **Premium Grade.** This is the highest grade. The meat here is of a young animal that has been well fed and has a good fat cover. The meat is very tender and soft.
- **High Grade.** This meat falls between premium grade and standard grade.
- **Standard Grade.** This is a tougher meat relative to the above two grades. Fat cover here is thinner and the
animal is slightly older.

As shown in figure 4.2, these first three grades comprise the high grade meat. It is meat from a high grade carcass. After the grading, these three grades are taken to the freezers for preparation of fresh meat orders.

- Commercial Grade. This is meat of an old animal that has been fed moderately. The meat is tough and has a very thin fat cover.

- Manufacture Grade. This meat is of a very old animal and that which has been fed poorly. It is very hard/tough meat which has no fat cover at all. This is the lowest grade.

The last two grades are of low quality meat. They are best suitable for canned meat. Therefore, the meat is taken to the Canning Department. After the grading process, the meat is now ready for the market.

4.2.2 External Management Structures

As mentioned earlier, the external environment is also important in assessing the overall performance of an organization, in this case the K.M.C. Both the parent Ministry and the Board of Commissioners which have been shown in the Organization Chart (Figure 4.1) as structural internal components of the Commission, are in reality a constituent part of the extra-organizational/management environment. We now turn to this
external environment which also includes the private abattoirs.

4.2.2.1 Ministry of Livestock Development

Through the Act of Parliament, Cap 363, the Ministry of Livestock Development (MOLD) is conferred with specific and general regulatory powers. This is as given in Section 17A of the Act which reads: "--- the Commission shall act in accordance with any general or special directions that may be given to it by the Minister". (Laws of Kenya, Cap 363, 1972).

To begin with, the Minister appoints the Board of Commissioners which henceforth is accountable to the Government/Public on the Commission's performance. Secondly, the MOLD sees into the day to day running of the Commission. As such, before a crucial decision is made, the Ministry has to be consulted. This includes decisions involving investments whereby the Ministry also confers with the Treasury's Investment Division. On salaries, the Ministry has to give an okay on any adjustments before forwarding them to the Inspectorate of State Corporations for approval. Others include hiring and firing, producer and retail price adjustments, etc. Moreover, the Ministry is also entrusted with powers to enforce various recommendations on management and financial affairs as regularly given by the Inspectorate of State Corporation and the Auditor General - State Corporations.

To accomplish some of the control mechanisms conferred on it,
the Ministry, as noted above, appoints the Board of Commissioners. The Permanent Secretary of the MOLD is a member of the Board. The degree of control of the MOLD over the Commission was recently reiterated by the Head of the Civil Service in his remarks that "Government Ministries will resume full responsibility for the proper and efficient management of State Corporations under them". This way, the Ministries would be able "to monitor the activities of the corporations" (Daily Nation, September 19, 1990).

4.2.2.2 Board of Commissioners

The composition of the Commission's Board of Commissioners has varied over the years. However, it has always been comprised of about 15 members as follows:

(a) A Chairman appointed by the President. But since the reopening of the Commission in October, 1989, it is now an Executive Chairman;

(b) The Managing Commissioner. Also, with the reopening we now have a General Manager. He is also appointed by the President;

(c) Four members appointed by the Minister for Livestock Development to represent stock producers;

(d) Four members appointed by the Minister for Livestock Development, being persons who in the opinion of the Minister, possess qualities that will benefit the Board;

(e) The Managing Director, Agricultural Development
Corporation;

(f) The Permanent Secretary, Ministry of Livestock Development;

(g) The Permanent Secretary, Treasury;

(h) The Provincial Commissioner, North-Eastern Province; and

(i) The Deputy Director of Livestock Development (Veterinary Services).

According to various KMC Board Minutes, the Board deals with virtually almost everything. These include Personnel, Livestock, Production, Finance, Sales and Marketing, Investments, etc (KMC Board Minutes, 1983 and 1984). Therefore, the duty of the Board is to monitor performance thereby seeing to it that viable decisions are made in all the issues. In essence then, the Board is the eye of the Government, for, having been appointed by the Minister concerned, it is through it that the Government explains and pursues both the commercial and social objectives of the Commission. Information from the Commission, used for control by the Board is supposed to come from the monthly reports prepared by the Finance Manager, Production Manager (Athi River), Branch Managers and Personnel Manager.

Therefore, the Board is accountable to the Government/public on the enterprise's performance. This study holds the premise that a properly constituted Board, a Functional Board, and with all other things being equal, should lead to an enterprise's efficiency. The vice-versa also applies: that a badly constituted Board will inevitably lead to an enterprise's eventual demise.
The composition of the Board of Commissioners is analysed in Chapter Five.

4.2.2.3 Private Abattoirs

The majority of the private sector abattoirs are owned by Local Authorities, cooperatives or private sector individuals or companies. They usually provide a slaughter service to third party animal owners in return for a slaughter fee. The private individuals, apart from providing a slaughter service, also slaughter animals and trade meat on their own account. The customers (requiring slaughter services) arrange at the abattoir for the sale of offal and hides to specialists in these products and transports the meat in bone-form to their butcheries or wholesale depots.

The most notable abattoirs in Nairobi include Dagoretti, Ong'ata Rongai and Waithaka Meat Supply. Each of these has a slaughter capacity of 200 cattle per day. Others include Hurlingham Butcheries, Kenya Cold Storage, Kenya Meat Supply and Farmers Choice - between them they account for the equivalent of over 250 head of cattle per day. Their output is supplemented by a number of small suppliers which include Feedlot Meat Supplies, Kirima Butcheries, West End Butchery and Gilani Butchery. The latter is notable for establishing an enviable niche market in high quality supplies to the most affluent sections of the society. In Mombasa and Nakuru, the main private abattoirs are the Mariakani
Slaughterhouse and the Langa Langa Abattoir respectively.

In terms of bulk supplies, Hurligham and Waithaka are market leaders with both Companies entering into substantial contracts with public bodies: Waithaka being predominant in supplies to the Armed Forces and Hurligham in other public institutions - schools, hospitals, universities, etc.

Generally, these abattoirs have a low standard of sanitation. The facilities are usually overcrowded. There are no head racks or wooden tables on which to carry out the work of health inspections. Floors are dirty and there is usually no hot water for cleaning. In both rural and urban abattoirs, hot meat is loaded directly into metal lined pick-up trucks by men in blood ‘soaked' once-white-overcoats for rapid delivery to customers/retailers. Although these trucks are supposed to be thoroughly cleaned at the end of each day's work, one observes that some go without being cleaned for a number of days. The principal units do however operate under improved sanitary conditions and have small carcass freezers which are used to treat carcass contaminated with measles.

Therefore, the physical supplies used by most of these wholesalers are not impressive in equipment or hygiene terms but clearly the key to the operation is to maintain, by whatever means, customer satisfaction while reducing costs to the minimum possible. It is therefore important to note that meat and meat products are a very important part in the diet of the average citizen.

As a result, the system (private sector) described above supplies the country's population with almost its full requirements
for meat, and as indicated, it does have the advantage of providing a low cost slaughter service within a legal framework.

4.3 Management Functions

In Chapter 1, we undertook to analyse the management of K.M.C. through a Management Framework. We therefore identified six 'principal' management functions, namely, planning, directing, coordinating, controlling, staffing (personnel) and the management of external environment which we shall now discuss under marketing since we have looked at the other external structures in sub-section 4.2.2.

4.3.1 Planning

Every organization must plan its activities vis-a-vis the set goals and objectives which it must meet. The objectives are "clearly" laid out in the Acts establishing the respective enterprises.

According to various Annual Reports, the Board of Commissioners holds an average of four Board Meetings per year to draw up strategic plans as well as to monitor the resultant progress. Moreover, at the Athi River Plant, there is allegedly a management meeting every Monday morning which is attended by the six departmental heads comprising the six departments. These are weekly programming meetings and are chaired by the Executive
Chairman. The meetings are supposed to review the previous week's operations as well as to make plans for the week. The plans generally involve such issues as the available stock of meat, the number of freezers operating, the number of livestock to purchase, the number of casuals—whether to add or to reduce, sales and marketing, among others. All these are made in light of the available operating capital.

4.3.2 Directing

Having now drawn the immediate/future plans, the directing of these activities is left to the various departmental heads to ensure that everything goes according to plan.

In the supervision, the decisions taken by the Management Committee are communicated to the rest of the employees (Note that the workers are not consulted beforehand by their respective heads). Here, the manner of communication is very important as it should not be through a memo but should most certainly follow an acceptable chain of command.

Generally, in directing, the employees should be made to feel free so as to bring out a close match between their prescribed roles and their behavioural roles.
4.3.3 Coordination

In every organization, nothing can be achieved without coordination, as each department would be acting in isolation. The end result would be disaster.

At the K.M.C, coordination is equally important. For example, the Livestock Department which is responsible for procurement (livestock), is supposed to have a daily schedule of the number of cattle to be delivered. This schedule shows when and from where the supply is coming from. Therefore, the suppliers/producers are expected to deliver cattle as per their delivery orders. This then eases congestion at the Boma and guarantees a daily supply to the Killing Floor.

This information from the Livestock Department is expected to be sent to the other linking departments, such as Personnel, Production and Finance. It should be sent to Production for example, because the latter is responsible for the killing and must therefore see that it has enough labour force and if not advice the Personnel Department so that it can hire an additional labour force (casuals) for the day(s) in question. The Finance Department also needs this information in order to calculate not only the amount it has to pay suppliers, but also the amount to pay the hired casuals. This then goes to show the expected coordination at the Commission, without which the given objectives can never be achieved.
4.3.4 Control

In control, an organization monitors the activities of its various sections to check whether suitable progress towards the objectives is being made. If not, any deviations from the plans are immediately corrected.

Likewise, the Commission is supposed to have some control mechanisms. There are three important areas of control in the Commission. These are:

i) Personnel control or control on human resources;

ii) Procurement control herein referred to as control on material resources; and

iii) Control on financial resources.

These areas are interrelated in that, in controlling purchases, the Commission will in effect control the other complementary units, i.e. Transport – especially where the Commission has to ferry the purchases to the plant; Personnel – since it will only employ a given number; and Finance – which will be able to standardise its expenditure.

Under control, the study broadly discusses the last two areas of control on material and financial resources as the issue of Personnel is discussed in a later section in the Chapter. However, a further discussion on the areas is done in the next Chapter.
4.3.4.1 On Material Resources

The onus of procurement is assigned to the Marketing Division, within the Kenya Meat Commission. The Division procures cattle and smallstock for the Commission. It is capable of sending three or so of its officers to the field to do the purchases when it anticipates a shortfall in supplies. It also does the procurement by giving orders to suppliers which specify the number to supply and when to do so. Livestock Marketing Division (LMD) under the Ministry of Livestock also used to procure livestock on behalf of the Commission from 1952 up to 1981 when it stopped. It used to do so in close collaboration with the Marketing Division.

When procuring, Veterinary Officers from the Ministry of Livestock advise the Commission Officers where to purchase livestock. They are specifically advised not to purchase from an area that is under quarantine.

There are various methods of procuring livestock from the producers, viz: Direct On-Farm Livestock Purchase, On-Farm Deferred Payment, Visual Appraisal, Public Auction and Government Sponsored/Controlled Purchases.

4.3.4.1.1 Direct On-Farm Livestock Purchase

This method is also referred to as Liveweight or 'on hoof'. The direct on-farm livestock purchase is where cattle are purchased 'on hoof' or liveweight and visual condition grading basis.
This method involves the visual assessment of an animal as it stands on its feet hence the term 'on hoof'. The method is mainly used among the pastoralists.

Ideally, purchases on liveweight involves the weighing of an animal on a weighing machine and then paying the producer on the spot according to his animals' weight. Originally, Kenya Meat Commission's Marketing Division and LMD officers had weighing machines. Others who had weighing machines included Kenya Meat Commission's prominent livestock suppliers such as the East African Extract Company in Eldoret, the Delamare Estate and the Lelematesho Estate. However, the use of machines by the Kenya Meat Commission and the LMD officers quickly ceased and the method degenerated into visual appraisal.

4.3.4.1.2 On-Farm Deferred Payment

The second procurement method is the on-farm deferred payment. Here cattle are purchased but payment is deferred until after slaughter and it is then based on the carcass weight recorded after grading at the slaughter plant. Hence, it is commonly referred to as Cold Dressed Weight (CDW) basis. Before its closure, Kenya Meat Commission was buying about 30% of its slaughter stock on CDW basis with the rest 70% being purchased on liveweight basis (KMC Annual Reports, 1985 and 1986).

The mode of payment on the CDW basis requires that the animals accepted (on delivery, the animals are inspected by Veterinary
Officers) be kept in the boma for at least 24 hours before they are slaughtered. After slaughter, the carcass is graded and weighed. Later, a cheque is prepared for the eventual payment.

4.3.4.1.3 Visual Appraisal

Visual appraisal is another procurement method. This method is commonly adopted by traders purchasing among the pastoralists where other methods of appraisal might be difficult due to inadequate facilities. Considerable experience and skill is necessary in order to visually appraise an animal with a precision that demands, among others, estimating the eventual carcass weight and grade after slaughter. Lack or misuse of this experience to ones advantage as was the case with the Kenya Meat Commission would result in huge losses of funds. Unlike the deferred payment, visual appraisal like the liveweight method, requires that payment be made on the spot. This method is therefore easy to abuse.

4.3.4.1.4 Public Auction

This method was previously very popular but has fallen to neglect in recent years. This can be attributed to the degeneration of the LMD which used to organize livestock auction markets and to encourage the local councils to do the same. LMD was also supposed to maintain competitive prices at auction sales.
by preventing the formation of traders "buying rings" (Wilson and Aldington, 1969).

The method involved producers and cattle traders who would submit cattle for auction - individual or lot sales - where groups of buyers would openly compete for purchases. The main disadvantage of public auction vis-à-vis producers and traders was that buyers from the butcher trade could very effectively form a "ring" and by such collusion, artificially deflate prices at any particular auction.

4.3.4.1.5 Government Sponsored/Controlled Purchases

The method has traditionally been based on liveweight and conditional grading of cattle submitted for sale through the LMD. Slaughter cattle were purchased, quarantined (where necessary) and transported to the main urban slaughter plants i.e. Kenya Meat Commission or municipal abattoirs. Since this method has been wholly an LMD affair, it is important to understand the history and the duties of the LMD.

The Livestock Marketing Division (LMD) is a predecessor of the African Livestock Marketing Organization (ALMO) which was "established in June 1952 under the auspices of the Veterinary Department in the then Ministry of Agriculture in an attempt to relieve the 'reserves' of surplus stock" (Report of Inquiry into the Kenya Meat Industry, 1956:13). This just goes to remind us that, when KMC was established in 1950, it was an organization that was geared to marketing of settler livestock. This fact,
notwithstanding, the primary objective of LMD was to "organise, sponsor and encourage, in close collaboration with local administration, the maximum outlets within Kenya for the sale of African stock produced in the pastoral reserves, with the objective of reducing overstocking in the areas to the carrying capacity of the land" (Report of the Committee on the Organization of Agriculture, 1960:16).

Other objectives of the LMD included purchasing livestock on behalf of Kenya Meat Commission. We therefore find that, in its early years, Kenya Meat Commission had failed to purchase livestock from the African reserves and so LMD "was to give priority to KMC for its supplies purchased especially from the remote areas which the Commission could not reach" (Kivunja, 1976:161). LMD purchases for KMC ceased in 1981 with the progressive collapse of the Commission. Table 4.1 shows LMD cattle purchases for KMC between 1977-81.

**Table 4.1 LMD PURCHASES 1977 – 1987**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL PURCHASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>15,823</td>
</tr>
<tr>
<td>1978</td>
<td>133</td>
</tr>
<tr>
<td>1979</td>
<td>8,124</td>
</tr>
<tr>
<td>1980</td>
<td>910</td>
</tr>
<tr>
<td>1981</td>
<td>887</td>
</tr>
<tr>
<td>1982-87</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Marketing Division (KMC) Files.
The dwindling purchases (Table 4.1) and the eventual stoppage are a good explanation of how producers and traders had lost confidence in Kenya Meat Commission due to its low producer prices and liquidity problems.

Another objective of the LMD was the provision of immature stock to graziers for fattening. Hence LMD could purchase livestock in the "African areas for resale within those areas" (Report of Inquiry into the Kenya Meat Industry, 1956:9). LMD was also expected to build and maintain stock routes and holding-grounds in order to overcome the problems of moving cattle through the semi arid areas of the country. Furthermore, it was to organize livestock auction markets and encourage local councils to do the same. Finally, it was supposed to maintain competitive prices at auction sales by preventing the formation of traders "buying rings".

From the above, we see that LMD was meant to control purchases in such a manner as to help de-stocking in order to avoid overgrazing. Moreover, it was expected to provide producers with better animal stocks through the resales of immatures. Unfortunately, when its major customer, KMC, progressively collapsed, so did its marketing effectiveness, thereby affecting both the slaughter trade operations and the immatures/breeding stock purchasing/distribution schemes. This then brought to an end the Government sponsored/controlled purchases method.

When Kenya Meat Commission operated as an effective service to the meat industry, livestock procurement was operated through all
the above methods. Kenya Meat Commission purchased both on liveweight and CDW basis as well as utilising the procurement services of LMD and contracting private livestock traders.

4.3.4.2 On Financial Resources

Financial control is very important since every expenditure should be as per the budget. In looking at the issue of financial control, it is imperative that we first look at the source of the Commission's finances.

The Commission, which is fully government owned, was from inception mainly funded from borrowed capital — rather than from equity. Hence, in the establishing Act, Laws of Kenya, Cap 363, the Commission was empowered to raise its operating capital from two sources, viz, loans and advances from the Treasury. The advances from the Treasury have to be voted for by Parliament after the Minister responsible has convinced it why the Commission requires additional capital.

Immediately on receipt, both the loans and the advances received and the interest thereon, becomes a "liability of the Commission" and is "a first charge on the property, assets, revenues and sinking, reserve and stabilization funds of the Commission" (Laws of Kenya, Cap 363, 1971).

The Commission's financial affairs are handled by the Finance Manager assisted by a Chief Accountant, Management Accountant, Data Processing Manager, Chief Internal Auditor and the respective
subordinates (see Figure 4.1).

On financial control, the Commission, like other public enterprises, is required to prepare annual operating budget and forward budget and to present it on the same fiscal year using the given format. The Commission's books of accounts are audited by the Auditor General - State Corporations. However, there is also an internal auditor in the Commission to counter-check the Commission's expenditures.

4.3.5 Personnel Issues

This section proposes to examine various personnel issues vis-a-vis the Commission. They include staffing, decision making, training, housing, medical care, education, sports and games, recreation and Trade Union.

4.3.5.1 Staffing

Staffing is very crucial to an enterprise's performance. It is therefore important that an organization recruit its staff merely on merit and that their professional know-how be utilised in posts commensurate with their qualifications and with a clear schedule of duties. Equipped with such professional ability, the staff need to be rewarded adequately both in salary terms and other efficiency enhancing incentives. These incentives include involvement in decision making, recognition, greater responsibility
and other non-pecuniary rewards. Above all, the total number of staff should not exceed or be below the adequate capacity to man the organization.

By the time of closure in October 1987, the Kenya Meat Commission had a staff force of 1,367 employees of which approximately 118 were management staff. In addition, the Commission also used to employ casual labourers, the number of which varied between 300 - 500.

Since 1986, the Commission has solely relied on local staff. However, between 1981 and 1986 the posts of Managing Commissioner, Financial Controller, Chief Engineer, Director of Operations, and Canning Maintenance were at one time or another occupied by expatriates.

Therefore, the Commission did not heavily rely on expatriates though the post of Financial Controller is on record to have been held by expatriates since 1950 up to as late as 1986. That irrespective, the Commission can therefore be said to have taken cognisance of the caution by the Office of the President against State Corporations hiring expatriates but to employ local professionals as they know the country's environment better (Daily Nation, July 24, 1990).

Further, no employee from the parent Ministry has ever been seconded to the Commission. The only secondment on record took place between November, 1987 and September, 1989 when the Commission was being run by a Caretaker Committee drawn from the MOLD.
4.3.5.2 Decision Making

Students of Public Enterprises have often highlighted the importance of involving the employees in decision making. They have noted that this increases the workers awareness of the operations of the enterprise. Secondly, it increases their motivation. Thirdly, it makes them identify more with the enterprise. Lastly, it leads to higher enterprise production.

Therefore, like any other organization, K.M.C. is supposed to involve its employees in decision making so as to benefit from the advantages of doing so. Further discussion on this topic is done in Chapter Five.

4.3.5.3 Training

A worker should continually replenish his skills not only to be in line with the current development, but also to be a better performer. In this respect, the Kenya Meat Commission offers both local and overseas training chances to its employees.

The local training courses include supervisory, management, accountancy, secretarial and technical training. These courses are usually undertaken on a full-time or part-time basis. Full-time courses are usually for technical staff attending courses at the Kenya Polytechnic, Nairobi University or any other institution (local or overseas) that the Commission may consider suitable.

The Commission encourages employees to undertake appropriate
professional studies privately, at their own expense, in order to improve themselves and to obtain higher qualifications. These courses include ACNC, CPS, CPA, etc. On passing, the employee is entitled to claim a refund of the tuition and examination fees provided that the same is subject to a maximum of one year's tuition for any one examination.

Employees pursuing these courses are granted time off during the day or a number of days per week. Also, on passing a professional examination, one salary increment is granted. However, this is provided that the maximum of the respective salary scale is not exceeded.

Induction Courses are offered by the Commission. These are undertaken with the aim of giving the employees basic ideas which may enable them to improve their performance on duty. These are, however, not promotional courses.

4.3.5.4 Housing

Athi River has a total of 803 housing units which are all within walking distance to the factory. These houses are in several estates. These are the Old Camp, the New Camp, Block 26, Kilo Estate, Flats, Kamukunji, Senior Staff and Intermediate Staff. The last two estates are usually for the management staff and the houses are fully furnished.

Further, the Commission has three houses in the elite areas of Nairobi which are exclusively for senior management staff members.
These are at Kitsuru, River Side and Lavington. The Kitsuru and River Side houses are currently occupied by the Finance Manager and the Sales and Marketing Manager respectively, while the Lavington one is at present vacant. The Executive Chairman stays in his Kathiani house and is paid owner occupied house allowance. He uses a Commission's vehicle to commute between his house and the Commission.

The Commission houses are self-contained except the Old Camp houses where toilets and bathrooms are communal. In all the houses, water is provided free with the employees only paying for their electricity bills. However, management staff members in grades 1 to 4 have their electricity as well as telephone bills paid by the Commission.

All employees (including married women) who are not housed are paid house allowance or owner-occupied house allowance where applicable. This is especially so for all the employees working outside the Athi River plant since the Commission does not have houses elsewhere. Casuals are neither housed nor paid any house allowance.

However, despite the availability of enough houses for the management staff, those in grades 1 to 4 prefer to look for their own accommodation in order to draw house allowance.

For the unionised staff, there is no laid down procedure to govern either the quality or the size of the houses in order to ensure that the allocation is done according to seniority in employment. Hence, in the absence of any undue preference, the
allocation is on a first come first served basis. This sometimes breeds discontent as junior officers are sometimes allocated bigger and better houses than their immediate seniors. This does not seem to be an issue with single employees. They are all usually allocated one bedroomed houses.

When the Commission closed, the few staff members that remained were free to move into any house that they preferred so long as it was vacant. As a result, today you find a unionised staff living in the management staff quarters and vice-versa. However, the Welfare Officer was quick to point out that plans are underway to reallocate the houses according to the employees' respective grades. This, it is expected, will arrest any simmering discontent and frustration.

4.3.5.5 Medical Care

The Commission operates a dispensary which is run by a qualified Senior Clinical Officer with the assistance of a Medical Assistant. Minor ailments are treated there while severe cases are referred to Machakos District Hospital and thereafter to Kenyatta National Hospital if the ailment warrants the same.

In 1987, the Commission, like other public enterprises, was allowed to "take an accident (not 'life') cover for its Chairman and Board members in the event of an accident while on business of the State Corporation up to such limits as may be approved by this Office" (OP Circular No. 1/87 dated Nairobi, 12th July, 1987).
4.3.5.6 Education

The Commission has two schools at the pre-primary and primary level within its compound. The pre-primary unit was built by the Commission in 1972 and has a capacity of 120 children. The school, which is a full day unit, is solely under the management of the Commission which also pays the three teachers employed. Presently, the school has 80 children of which 60 are of the KMC staff and the rest 20 are from outside. KMC parents pay KSh. 60 per month per child while outsiders are charged KSh. 90. At lunch time the children are served with tea, milk and bread. Before the Commission's closure in 1987, the children were in addition being served with soup.

When the Commission was closed, the school was also closed since there was no money to pay the three teachers. This was done after the parents had unsuccessfully tried to raise the teachers salaries.

The other school, the KMC Athi River Primary School, was built by the Commission in 1976. The school is jointly run by the Commission and the Ministry of Education with the teachers being paid by the Teachers Service Commission. However, the Commission maintains the school's buildings. Outsiders are eligible to enroll their children and the fees structure is the responsibility of the Ministry of Education. No lunch is provided.

There is no rule that staff should take their children to the above two schools and so the employees are free to take their
children to any school in Athi River or elsewhere. Currently, there are 26 staff children who attend schools in Nairobi. The majority of these are in primary school as only 3 out of the 26 are in secondary schools. The Commission provides transport to Nairobi at a charge of KShs. 4.85 return per child. Before it was closed in 1987, the Commission used to ferry the children to and fro at no charge at all.

4.3.5.7 Sports and Games

The sports and games available include draughts, ajure, darts, table tennis, snooker, netball and ten quoit. Before the closure, volleyball and soccer used to be very popular sports. In the late 70s and early 80s, the Commission's soccer team, the KMC Football Club, used to play in the Nairobi Division II League. However, the performance of the club was faced with one major problem: most of the good players were casuals and when they went for fixtures, it meant that they (casuals) missed their day's pay as they had not worked. This demoralised the casuals and they refused to continue playing for the Commission. Since the Executive Chairman is interested in putting the Commission on the sports scene, there is hope for absorbing those casuals good in sports.

Certain games are played in the evenings but sport hours are only during the weekends as the employees work up to late hours. Also, like all public enterprises in the country, the Commission has a staff choir.
There are three recreation halls. These include the Social Hall, Members Club and the Bachelor's Mess.

The Social Hall is for the unionised staff and is located near their living quarters. It is open between 5 p.m. and 11 p.m. It has a T.V. and provides games such as draughts, ajure and darts. Drinks are also served. Near the Hall is a butchery and a canteen to cater for the unionised staff provisions. The price of meat at the butchery is just the same as any other butchery. Both the canteen and the butchery are managed by the Commission.

The Members Club is open to all management staff and is open between 2 p.m. and 11 p.m. Apart from serving drinks, it provides games such as snooker, darts and table tennis. There are also two swimming pools: one for adults and the other for the children. There is also a canteen and a butchery.

The Bachelors' Mess, so called because most of the people who frequently eat there are often singles, is open between 8 a.m. and 9.30 p.m. Drinks and meals (lunch and supper) are served.

The Mess is open to both the management and the unionised staff, though the latter have a phobia of the place.
The Kenya Union of Commercial, Food and Allied Workers represented the interests of the workers until October 1987 when the Commission went into insolvency. This is the Unionised group of workers who fall between the scales 10-15. Each worker used to pay KShs. 20 per month to the Union. (Management scales are 1 to 9).

During its tenure, the Union is alleged to have done almost 'nothing' for the workers and all the unionised workers interviewed stated that they would no longer like to be represented by a Union. The major reason they cite for their dislike of the Union is that it was unable to negotiate better salaries for them such that some salaries were as low as KSh 748.50. Due to this "bad representation", some workers were paid a gratuity of as little as KShs. 18,000 after having worked for about 30 years. This was definitely a good example of exploitation of one's labour power by the management.

With the reopening of the Commission, the lowest paid worker now earns a modest KShs. 1,240 per month. The management is quick to quote the low salaries negotiated by the Union and the current relatively high salaries as a sure sign that the workers do not require a Union to represent them.

The workers also accused the Union of failing to negotiate for various other things. These include, a restoration of promotions which were frozen in 1983, deferred, stopped or even better annual
increments, wrongful dismissals and shorter working hours among others. These are the things that make the workers bitter and presently unwilling to rejoin the Union or any other Union for that matter.

On its part, the Union claims to have rendered the best possible representation. It avers that it was unable to do better in the face of a strong Government desire to keep workers salaries low coupled with the fact that the Commission was not generating any profit at all but was just a drain of Government resources. For example, a wage increase dispute between Management and the Union involving an estimated KSh. 3 million from 1st July, 1985 to 30 June, 1986 was deferred indefinitely by the Industrial Court due to the severe financial difficulties facing the Commission (KMC Annual Report, 1986/87). The case was never revived. Therefore, due to the financial constraints that faced the Commission, it was impossible for the Union to successfully negotiate for a revision of the workers salaries and other terms and conditions of service. In this respect then, the Union did the `best' it could.

However, Union or no Union, the question of minimum and maximum salaries of public enterprises is mainly a Government affair. All the same, a Union has a major role in seeing that they are not kept at the most minimum and that constant reviews are carried out. In addition, wrongful dismissals, intimidations, etc, can be discussed between the Union and the Management in an environment conducive to such discussion.
4.3.6 Marketing

The Marketing Department is responsible for sales within Kenya, the operation of a depot in Nairobi and Mombasa and export sales. The department is headed by a Sales Manager who reports directly to the Managing Director (see Figure 4.1).

4.3.6.1 Domestic Market

Domestic marketing of meat in Kenya is handled at the wholesale level by a variety of agents including the Commission and private slaughterhouses, and by a wide range of retailers at the retail level. The Commission used to supply, in proportion to its size, a relatively small portion of the total domestic demand and was therefore widely considered to be largely insignificant in the domestic market.

At the domestic market, the Commission concentrated on Nairobi, Mombasa and Nakuru. Its total share of these markets was estimated by the Commission's Sales Department as:

- Nairobi 25%
- Mombasa and Coast 20% (including ships)
- Nakuru 20%
- Elsewhere minimal.

As stated above, considering the size of its operations, the Commission held, in proportional terms, a small percentage of the domestic market. The factors responsible for this are discussed in
4.3.6.2 Export Market

The export of meat and meat related by-products performed two very useful functions. In addition to providing Kenya with foreign exchange, the export of canned corned beef provided an important outlet for commercial grade beef which would have been difficult to dispose off on the local market, as well as fat and trim from higher quality carcass. Moreover, the export of chilled and frozen meat provided an outlet, normally at very favourable prices, which would have been in excess of local market demand.

The Commission exported meat to such countries as Abu Dhabi, Bahrain, Burundi, Code de Voire, Djibouti, Ethiopia, Ghana, Greece, Holland, Hongkong, India, Kuwait, Libya, Lebanon, Liberia, Mauritius, Nigeria, Rwanda, Saudi Arabia, Seychelles, South Yemen, Switzerland, Tunisia, United Kingdom, West Germany, Zaire and Zambia. By doing so, it was able to bring foreign exchange to the country.

4.4 Summary: Management Structures and Functions vis-a-vis Performance

K.M.C was established in 1950 as a commercial and social organization that was to engage in domestic and foreign trade of meat in the country. As a commercial organization, it was to
generate profit for the Exchequer, and as a social organization, it was to implement certain national policies concerning the livestock sector. Given these contradictory roles, did the Commission's management achieve the objectives?

Taken together, the objectives, the Organizational Chart and the operational model make up the Commission's internal management structure. However, the latter two, which are firmly in place, are suitable for good management performance. Therefore, other things are accountable for the Commission's performance.

K.M.C. operations are greatly influenced by the external management structures which make up the extra-organizational environment in which it operates. The main actors in this environment are the Ministry of Livestock Development, the Board of Commissioners and private abattoirs. The effective management of these external agents is of paramount importance if K.M.C has to remain in the market. Therefore, how did K.M.C. manage these agents in the face of their power of control and influence?

For good enterprise management, the identification and pursuit of the 'principal' management functions ensures organizational effectiveness and efficiency. As stated in Chapter One, these management functions include planning, directing, coordinating, control, staffing (personnel issues) and marketing. In all, the performance of each management function is important as it moves the enterprise towards the attainment of its objectives. The vice-versa is equally applicable: that the negligence of the management functions spells disaster for the enterprise. This
being the case, which option did K.M.C. management take?

K.M.C. markets its products in the domestic and the export market. In the early 1970s, the domestic market was almost guaranteed and there were few competitors. In addition, the Commission was the sole exporter of meat and meat related by-products. Given the two markets, what should an enterprise like K.M.C. have done? Should it have concentrated on one market at the expense of the other, or should it have taken both? This question, together with other issues on management performance are discussed in Chapter Five.
CHAPTER FIVE

THE PERFORMANCE OF KENYA MEAT COMMISSION

5.1 Introduction

This Chapter, which takes on from Chapter Four, is a critical analysis of the performance of Kenya Meat Commission. As a measure of performance, the study utilises the Management Framework given in Chapter One and also discussed in Chapter Four.

The principal management functions as summarised by Miner (1973) in *The Management Process* are divided into two: Primary and Secondary functions. To recapitulate, the primary functions are planning, directing, coordination and control, while the secondary functions are staffing and representing – which we have substituted with the management of the external environment. Except for the latter, all the other management principals are internally oriented. The management of the external environment, which is externally oriented, is broad and it includes the Ministry of Livestock Development, Board of Commissioners, private abattoirs and marketing.

The study discusses the first three external agents under the External Management Structures, while marketing and the other five management functions are discussed under Management Functions. Below is a short review of how the study has used the Management Framework to explain performance.
One, planning which precedes all managerial functions, is the identification of policies, programmes and procedures to be followed in order to achieve an organization's objectives. Without it, there is no future in any organization as poor planning will inevitably lead to poor organization performance. Therefore, our interest is to identify what type of plans, if any, were given to the Commission.

Two, directing aims at inducing the workers to give their maximum contribution through supervision, communication and motivation. In directing, a manager must lead, communicate and motivate. It therefore calls for good leadership, an acceptable communication channel and motivating incentives so as to make the workers identify with the enterprise and direct their effort towards the efficiency of the organization. Here we are interested in the type of supervisors involved in directing, the manner in which directives were issued, and the type of incentives used.

Three, co-ordination is the harmonizing of various parts of an organization together in order to see that all their activities are directed towards goal achievement. Therefore, coordination tries to prevent chaos in an organization by ensuring a smooth and complimentary flow of activities. Without it, there will be a jumble of activities hence imminent disorder. Such an organization is therefore doomed to failure. Whether the Commission's activities were coordinated or uncoordinated is our main purpose here.
Four, control is matching the activities with the plans. In control, the managers must ensure that the plans are being observed and that there is no disagreement between the actual performance and the plans (intended performance). However, if any disagreement, suitable changes are made in order to bring the performance in line with the plans. The study has looked at control from three perspectives, viz, control of human resources, control of material resources and financial control.

Control of human resources entails sound recruitment policies whereby the best personnel are absorbed into an organization. The total workforce should correspond to the organization's workload for optimum allocation of duties and budgetary concerns.

On control of material resources, we find that by controlling the purchases, the Commission would be able to balance the livestock procured with its kill capacity and the budgeted capital.

On financial control, there should be sound budgetary allocations to enable proper accounting of financial expenditures. Thus, for proper accountability, money used should be strictly according to the budget. Whether or not the Commission conformed to control norms will help us explain its performance.

Five, the whole issue of staffing, from recruitment through remuneration, up to retirement benefits, is pertinent to the performance of any organization. An organization's recruitment policies, wage guidelines, accrued incentives, etc. motivate the hired employees towards better performance. Our interest here is how the Commission's staff were hired, remunerated, motivated, etc.
Finally, no organization can exist in isolation. It is part and parcel of the external environment and as such, each has to influence the other in the day-to-day activities. However, the degree and the type of influence on the other, i.e. the external agents on the Commission, has much to do with the performance of any organization.

The Commission's main external agents included the Ministry of Livestock Development, the Board of Commissioners and the private abattoirs. Whether or not the Commission was able to ward-off or to accommodate their influence is of paramount concern to the study.

Apart from the Commission's marketing strategies and its calibre of marketing staff, marketing is largely an external function in that, it is controlled by factors from without the Commission. The study's interest is therefore, how the Commission marketed its products and their reach (in both local and export markets) vis-a-vis its overall performance.

Therefore, the above six "principal" management functions have been used to explain the poor performance of Kenya Meat Commission: the how and the why it was mismanaged. This, as the study has explained, is as a result of the management's failure to observe the six "principal" management functions.
5.2 Overview

As stated in Chapter Four, the Commission, like all other public enterprises, was established in order to play certain roles in the economic and social development of the country. As such, the Commission was created as an agent of Government policy on the livestock and meat industry sector. However, it was also intended to operate at a profit. To achieve this, the Commission must be capable of competing in both the domestic and export markets which in return requires it to establish and maintain sufficient presence in each.

This it actually did for a period of over two decades after its inception. However, over the years and on a gradual basis, Kenya Meat Commission authorised sufficient operating licences for private sector traders and slaughterhouse operators to take over a dominant proportion of the domestic trade in large urban centres (rural trade has always remained the domain of the small scale private sector) in the hope that it would obtain a significant market share of the world beef export trade. This managerial decision was made in the early 1970s "at a time when world beef prices were higher than domestic prices by a factor of three" (U.I.C. Report, 1989:109). Accordingly, the Commission made very considerable profit. It then committed itself to a substantial programme of capital expenditure for new facilities which were to be funded from operating profit. Unfortunately, this capital expenditure coincided with the collapse of export meat prices in
1976, at which time domestic prices became more attractive than those of the export market.

Kenya Meat Commission never recovered from this reverse. Having neglected the domestic market in pursuit of exports, it left this market open to private sector competition and never regained the foothold to use its monopoly powers to dominate the local market (probably to the benefit of the domestic consumer). Since 1977 therefore, Kenya Meat Commission has been an unhappy organization which has been unable to compete in world markets (despite a 20% incentive on export prices effective in 1979) and in the domestic market.

The Commission was eventually closed on 31st October, 1987. A Caretaker Committee from the Ministry of Livestock Development was appointed by the Government to safeguard the Commission's assets and to run its affairs on a day to day basis. Slaughtering and canning operations were carried out on a limited scale and casual employees were engaged to supplement the skeleton staff on 235 employees out of which 17 were management staff. Securicor Guards Kenya Limited were hired to provide security services in all the plants.

By the time of closure, the Commission's total liabilities amounted to Shs 590.78 million against assets valued at Shs 257.70 million. The figures broke down as follows:
### KMC Liabilities as at 30th June, 1988

<table>
<thead>
<tr>
<th>Description</th>
<th>Kshs. (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Kenya Loans</td>
<td>257.29</td>
</tr>
<tr>
<td>National Bank of Kenya Loans</td>
<td>39.00</td>
</tr>
<tr>
<td>Bank Overdrafts</td>
<td>148.80</td>
</tr>
<tr>
<td>FAO Revolving Credit</td>
<td>7.48</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>35.34</td>
</tr>
<tr>
<td>Provisions for Interest and Taxation</td>
<td>84.87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>590.78</strong></td>
</tr>
</tbody>
</table>

### Value of KMC Assets as at 30th June, 1988

<table>
<thead>
<tr>
<th>Location</th>
<th>Description</th>
<th>Kshs (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Athi River</strong></td>
<td>Abattoir (Land, Buildings, plant, machinery)</td>
<td>145.00</td>
</tr>
<tr>
<td></td>
<td>Staff Quarters and Land (48 Acres)</td>
<td>23.00</td>
</tr>
<tr>
<td></td>
<td>Ranches (2 totalling 5 acres)</td>
<td>30.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>198.60</td>
</tr>
<tr>
<td><strong>Nairobi</strong></td>
<td>Depot (2.7 acres) - Land, buildings plant, machinery</td>
<td>12.50</td>
</tr>
<tr>
<td></td>
<td>Houses (3)</td>
<td>4.40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>16.90</td>
</tr>
<tr>
<td><strong>Mombasa</strong></td>
<td>Abattoir (7.2 acres) - (Land, buildings, plant, machinery)</td>
<td>36.00</td>
</tr>
<tr>
<td></td>
<td>Jetty</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>Depot (1.24 acres) - Land, buildings, plant, machinery</td>
<td>5.70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>257.70</td>
</tr>
</tbody>
</table>

**Source:** Kenya Meat Commission Accounts Department

These figures indicate that, the liabilities more than doubled the total assets. Hence, with a negative working capital, the Commission ought to have been closed in the late 70s and the inherent policy and structural weaknesses identified.
Established in 1950, the Commission took root quickly and within the first decade of its existence exercised great influence on the production and marketing of cattle and beef in Kenya. By 1960, the Commission had established another plant in Mombasa, rented abattoirs in Nakuru and Eldoret and established sales at Nanyuki, Kiganjo, Kinangop, Lanet, Kisumu, Naivasha, Lubwa and Songho.

During this period, the Commission provided good quality, hygienically prepared meat for the domestic market and developed a considerable export trade in chilled, frozen and processed meat for the overall benefit of the country. As a result,

"the Commission achieved a high reputation for the quality of its operations amongst its customers, in particular for the clean finish of its meat, the high quality of hide dressing and the maintenance of standard specifications in the production of canned goods, rendered products and offals" (U.I.C. Report, 1989:113).

In the export market, the Commission also successfully supplied a wide range of substantial overseas clients for many years. These included Britain, Zaire, Libya, Hongkong, Greece and Switzerland, among others.

In the circumstances, the Commission fulfilled, when necessary, Government objectives in meat industry including price regulation and acting as livestock buyer of last resort in times of drought. The Commission, therefore, gave the country a focal point around which its livestock sector could develop.
Further, it provided the livestock producers with a relatively stable and guaranteed market for the animals.

However, by mid 1960s, the efficient and profitable Kenya Meat Commission started crumbling down slowly. This was witnessed by the decreasing livestock supplies to the Commission and consequently a decrease in both the domestic and export sales. Kivunja cites five economic factors which appeared to have been responsible for the phenomenon. They included:

i) the relatively low prices the Commission offered to producers;
ii) the tremendous competition (including boycott) set up by livestock traders and butchers against the Commission;
iii) the increasing producer-price-rationality with regard to commercialization of livestock;
iv) the constraints set up by the Government in prescribing and applying an active price policy for the Commission; and
v) failure of the Commission to apply monopolistic powers. (Kivunja, 1976:165)

By 1968, the Commission began to shrink in size. In that year, the Eldoret slaughterhouse broke away from the Commission's licence and fell back to Municipal Authority as did all other licensed abattoirs, namely: Nakuru, Mombasa and Athi River. As a result of the high cost of operating these premises, and the intensive competition launched by butchers against it, the Commission had to close down its abattoir in Nakuru in February, 1975. It was therefore left with only two plants; one at Mombasa and the main one at Athi River.

Perhaps expectedly, the Commission was unable to operate with only two abattoirs, hence, the Nakuru abattoir was re-opened in September, 1976 after having been closed for nineteen months.
Not unexpectedly, the following year the Commission started its cyclic system of losses. In that year, the Commission made a loss of K£ 643,399 (KMC Annual Report, 1977). According to the management, the principal factors for incurring the loss were:

i) lack of sufficient throughput;
ii) competition from private slaughterhouses;
iii) high overheads in keeping up of high hygienic standards;
iv) controlled low consumer prices; and
v) liveweight buying.
(KMC Annual Report, 1977)

Therefore, while from the start the Commission may well have suffered from inefficiencies which are inherent in many public enterprises in the country and elsewhere in the World, these (inefficiencies) did not become apparent for many years and hence the country's livestock and meat industries enjoyed considerable development up to around 1975. The reason why this had not become evident earlier was that the Commission was protected by its monopoly status, a status which was seriously abused in the early 1970s.

From 1976, the Commission never recovered and thereby continually generated losses. Exports effectively stopped in 1986 at a time when the Commission had negligible influence on the local market. As a result, the Commission's financial liabilities accumulated at an increasing level over the years until in 1987 when the Government decreed that the progressive deterioration of the Commission could no longer continue and declared it technically insolvent.
However, in normal commercial terms, the Commission had been bankrupt for many years. It had, as a public enterprise, been supplied with Government sponsored finance to enable it to continue operations on a reasonable scale upto 1985 when the subsidy ceased.

5.2.2 Performance: 1977 – 1987

The period 1977-87, was a bad one for the Commission. Apart from the poor international market, the Commission was faced with stiff competition on the domestic market by the private slaughterhouses. "Continued lack of sufficient working capital hampered the Commission's efficient competition in the meat industry locally and abroad, and exposed it to a weak bargaining power on obtaining its general supplies" (Board Paper, 5/84:3).

Therefore, with an inadequate working capital, the Commission could not amass enough throughout for slaughter. This resulted in high overhead costs which were worsened by the Commission's controlled pricing system since the high operating costs could not be passed over to the retailers and hence the consumers.

The Commission was therefore operating at a loss and was only being kept afloat by Government and Bank Loans, which as a matter of fact, did little to alleviate the situation as they simply added to the Commission's debt burdens. Indeed, the Commission needed more than an injection of money alone. It needed a restructuring of the whole organization. In the 1982 Annual Report, the Auditors observed that:
"Without proper identification and elimination of any inherent structural and policy weaknesses which may be identified, even the best financing arrangements may not be able to uplift the Commission out of its present precarious position as financial drain on the Exchequer" (KMC Annual Report, 1982).

The auditors warning was never heeded and the Commission continued as a financial drain until 1987 when it was finally closed. As stated earlier, by this time the Commission's total liabilities amounted to Kshs. 590.78 million against total assets valued at a mere Kshs. 257.70 million.

Table 5.1 and Figure 5.1 both of which are explained later, at a glance show the progressively poor performance of the Commission. We now try to explain this performance in the subsequent sections.
Table 5.1: K.M.C. PERFORMANCE (1976-JUNE 1988)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cattle Purchases</th>
<th>Average C.D.W./K.G</th>
<th>Total Condensation</th>
<th>Local K£</th>
<th>Export K£</th>
<th>Export Compensation K£</th>
<th>Total turnover K£</th>
<th>Profit/loss K£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>228,424</td>
<td>114</td>
<td>2,194</td>
<td>3,612,089</td>
<td>7,481,399</td>
<td></td>
<td>11,093,488</td>
<td>748,316</td>
</tr>
<tr>
<td>1977</td>
<td>158,136</td>
<td>131</td>
<td>1,197</td>
<td>4,193,687</td>
<td>6,800,081</td>
<td></td>
<td>-</td>
<td>10,993,768</td>
</tr>
<tr>
<td>1978</td>
<td>68,034</td>
<td>135</td>
<td>1,748</td>
<td>2,243,151</td>
<td>1,824,075</td>
<td></td>
<td>-</td>
<td>5,067,226</td>
</tr>
<tr>
<td>1979</td>
<td>67,601</td>
<td>117</td>
<td>2,996</td>
<td>2,820,266</td>
<td>2,152,428</td>
<td>136,148</td>
<td>5,108,842</td>
<td>(643,399)</td>
</tr>
<tr>
<td>1980</td>
<td>55,935</td>
<td>117</td>
<td>1,707</td>
<td>3,458,053</td>
<td>863,839</td>
<td>95,109</td>
<td>4,417,001</td>
<td>(1,985,467)</td>
</tr>
<tr>
<td>1981</td>
<td>61,164</td>
<td>137</td>
<td>289</td>
<td>3,378,734</td>
<td>1,847,228</td>
<td>188,647</td>
<td>5,414,609</td>
<td>(1,914,072)</td>
</tr>
<tr>
<td>1982</td>
<td>75,525</td>
<td>138</td>
<td>347</td>
<td>4,636,719</td>
<td>5,041,243</td>
<td>531,450</td>
<td>10,209,411</td>
<td>(2,497,736)</td>
</tr>
<tr>
<td>1983</td>
<td>83,585</td>
<td>123</td>
<td>645</td>
<td>5,290,452</td>
<td>4,321,337</td>
<td>401,648</td>
<td>10,013,437</td>
<td>(1,605,768)</td>
</tr>
<tr>
<td>1984</td>
<td>222,729</td>
<td>94</td>
<td>2,613</td>
<td>8,775,667</td>
<td>7,951,468</td>
<td>1,365,364</td>
<td>18,093,517</td>
<td>(2,685,251)</td>
</tr>
<tr>
<td>1985</td>
<td>116,326</td>
<td>117</td>
<td>1,176</td>
<td>8,482,152</td>
<td>6,332,663</td>
<td>1,121,644</td>
<td>15,936,459</td>
<td>(4,978,293)</td>
</tr>
<tr>
<td>June</td>
<td>17,635</td>
<td>118</td>
<td>251</td>
<td>2,181,895</td>
<td>2,264,508</td>
<td>262,602</td>
<td>3,709,005</td>
<td>(2,586,537)</td>
</tr>
<tr>
<td>1986/87</td>
<td>6,534</td>
<td>121</td>
<td>252</td>
<td>1,350,647</td>
<td>74,577</td>
<td>13,749</td>
<td>1,439,073</td>
<td>(4,193,242)</td>
</tr>
<tr>
<td>1987/88</td>
<td>12,510</td>
<td>88</td>
<td>50</td>
<td>1,123,750</td>
<td>-</td>
<td>-</td>
<td>1,123,750</td>
<td>(4,182,405)</td>
</tr>
</tbody>
</table>

5.3 Management Structures

In trying to explain KMC's performance, we look at a number of management structures, which in our view, contributed to the Commission's negative performance and hence the eventual closure. The discussion is in two parts: the internal and external management structures.
5.3.1 Internal Management Structures

5.3.1.1 Objectives

As pointed out in Chapter Four, the Commission was established both as a commercial and social organization. The social objectives conferred on the Commission were, first, that the Commission was to act as a buyer of last resort especially during drought periods. Secondly, the Commission was to be a price stabilizing agency in the livestock and meat industry sector. (See Section 4.2.1.1. for the commercial objectives).

By acting as a buyer of last resort, the Commission was compelled to buy all low quality animals especially during the drought periods, animals which the private abattoirs would definitely not buy. In implementing this policy, the Commission lost a great deal of money as the low quality animals bought were only suitable for the low manufacture grade (meat categorised as manufacture grade is only suitable for canning). For example, in 1984 - a drought year - the Government directed the Commission to buy all drought stricken animals. As a result, the Commission's total throughput for the year stood as 222,729 cattle as opposed to 83,585 cattle in 1983. However, the quality of the throughput was so low that the average carcass weight dropped from 123 kg per head in 1983 to 94 kg in 1984. In addition, the Commission incurred a loss of K£ 2,685,251 as compared to the loss of K£ 1,605,768 in 1983. (See Table 5.1). Of this loss, approximately K£ 1,837,500
was due to the extra expenses incurred in the purchasing of drought-stricken cattle (KMC Annual Report, 1984).

Secondly, the Commission was a price taker both in the domestic and international markets. The Government fixed the prices which the Commission paid to producers as well as the retail wholesale prices.

By controlling both the producer and the retail prices, the Government made the Commission to operate in a very difficult situation. It could not pass its high operating costs to butchers and hence to the customers. This situation was exacerbated by the fact that private abattoirs with very low overheads were able to sell to the retailers at a low price, hence most of the butchers bought very little from the Commission. In the circumstances, the Government should have allowed the Commission to achieve an economically efficient pricing system for both producers and retailers which best reflected the existing market demand for beef rather than the current situation which fixed the Commission's prices but left the private firms with a lot of flexibility.

At the international market too, the Commission was a price taker in all those areas where it sold beef and the related products. This was because its exports were relatively too low to have a significant influence in the international market which is mainly served by major exporting countries from South America (Brazil, Argentina and Uruguay) and from the ACP countries, notably Zimbabwe, Botswana and Swaziland. As such it had to contend with prices set by the leaders.
Therefore, by performing both social and commercial objectives and in a competitive environment, the Commission's objectives are difficult to achieve. Mainly, they are both contradictory and unclearly stated. This is because they are not prioritized in such a manner as to allow the Commission to perform the social objectives only if it is performing the commercial objectives efficiently. In other words, there ought to have been a clear mandate as to which objectives the Government considered the most important for the Commission to maximize. Moreover, prioritization could have been such that, if the Commission made losses out of performing the social objectives, the Government would guarantee full compensation for the losses.

Unfortunately, this was not the case, and though the Government never at any one time saw the need to clarify the objectives, it nevertheless did state one thing clearly: that it was not prepared to subsidize the Commission in the event of it incurring a trading loss. However, despite the fact that the Commission returned losses from 1977, the Government continued subsidizing it, and it was not until eleven years later when it finally stopped the subsidies and closed the Commission in 1987.

The issue of objectives was then one that the Commission could not handle since the social objectives were mandatory and had to be performed for the welfare of the citizens. On the other hand, the Government expected the Commission to show operating profit. Such an unenterprising situation whereby public enterprises are called upon to perform both commercial and social objectives which are
both contradictory and unclearly stated are usually bad for an enterprise's efficiency. This is so because, efficiency is usually looked at from a commercial point of view, and as a result, the internal efficiency of the enterprise is in most cases overlooked and never evaluated.

The Working Party on Government Expenditures took cognizance of this situation and recommended that "the Government should not direct a parastatal to carry out policy-related activities which might not be financially sound without providing explicit subsidies for those activities" (Ndegwa, 1982:49). As such "social mandates to parastatals must be financed somehow. If the firms have no excess profit, the money must come from the exchequer. One does not get blood from a turnip" (Grosh, 1988:413). However, at no time has the Government subsidized the Commission for carrying out the social objectives on its behalf. The effect of these on the Commission's performance are easily recognisable: they become a management obstacle.

5.3.2 External Management Structures

In this study, we sought to understand the vulnerability of the Commission vis-a-vis influences exerted by various external structures/agents. The main issue was whether the Commission was able to hold on its own against the influences, and if not, the effect of these structures vis-a-vis the overall performance of the Commission.
Therefore, like all public enterprises, the Kenya Meat Commission has to contend with various external structures. The main ones include:

i) the Ministry of Livestock Development on which the Act confers specific and general regulatory powers;

ii) the three control agents created under the State Corporations Act, 1986; (These have been discussed in Chapter Three)

iii) the Board of Commissioners which is appointed by the Minister for Livestock Development to oversee the general management of the Commission and hence the performance; and

iv) the private abattoirs in stiff competition with the Commission.

5.3.2.1 Ministry of Livestock Development

The MOLD is one of the external agents that greatly influence the management and hence the performance of the Commission. The study tried to assess the extent of the Ministry's influence and the areas of influence as well as the employees' view of the Ministry's involvement.

In doing so, the study asked the question: "Generally, what is your feeling about the Ministry's involvement?" Out of a total sample of ten respondents from the management staff, there was 100% no response to the question. All the respondents claimed that the question was too sensitive and beyond them and that only the Managing Director was well equipped to answer. However, even the
Managing Director did not respond to the question, quipping that the Ministry's officials were better placed to answer. Well, it looked obvious that they were all trying to safeguard their positions and they were not ready to hurt the "hand that feeds them".

However, the act confers the Ministry of Livestock Development with specific and general regulatory powers. The Ministry sees into the day-to-day running of the Commission. As such, before any (major) decision is made, the Ministry has to be consulted. These includes decisions involving huge investments whereby the Ministry also confers with the Treasury's Investment Division, to decisions involving recruitment, hiring and firing, promotions, producer and retail price adjustments, etc. Moreover, the Ministry is also conferred with powers to enforce various recommendations on management and financial affairs as regularly given by the Inspectorate of State Corporations and the Auditor General (State Corporations).

This kind of lordship over the Commission no doubt erodes any initiative or motivation the public enterprise management might have had. Likewise, laxity and strict adherence to the rules rather than the objectives become the order of the day. Hence, goal displacement and poor performance. Therefore, like most public enterprises, the Commission management is forced to sit back and has to consult the parent Ministry even for very minor decisions.
The duty of the Board is to monitor progress and to effect any corrective advice deemed necessary. As such, it should be made up of the relevant professionals who should be able to steer the enterprise along positive paths. Hence, as a commercial enterprise, the Commission is required to be run by people with business acumen and if possible, in meat and livestock industry, and therefore the ability to steer it effectively in such a competitive sector.

The Commission's Board of Commissioners has always been comprised of 15 members. 8 of the 15 members are appointed by the Minister for Livestock Development on whose portfolio the Commission falls. Needless to say, this is one area where the enterprise's performance is forsaken for political patronage as the appointments reflect just the opposite. Those appointed in both instances are just political henchmen who have to be censured by their patrons to ensure loyalty more than anything else.

On the appointments done by the Head of State, we find that Kenya Meat Commission has always been a ground for political patronage. It is interesting to note that since 1970, only one Managing Commissioner, Mr. M. N. M'uthi, has had his contract renewed after the expiry of the three year period. Mr. M'uthi served the Commission from 6/1/83 upto the time when it was declared technically insolvent and eventually closed on 31/10/87. This was in contrast to 1981 when four Managing Commissioners were
appointed and subsequently sacked on different occasions during the same year. The Commissioners served from 1/1/81 to 31/1/81; 1/2/81 to 24/2/81; 4/5/81 to 12/7/81; 4/11/81 to 14/12/81; 6/1/83 to 31/10/87; 1/11/89 to 31/1/90; 1/2/90 upto date (KMC Various Annual Reports).

The first four cases, apart from clearly indicating that there is no professional criteria applied in the appointments of the Managing Commissioners, is a good example of political patronage. The Commissioners were appointed to the posts only to fall out with the system as soon as they tried the new positions. Otherwise, the turnover is very high and seems to mock any professional consideration. In the end, it is as if the system wanted to appease each of them for the "little" they had done for it.

A case in point is the appointment of Mr. Maina Kariuki who served between 1/11/89 to 31/1/90. Mr. Kariuki, who was seconded from the Ministry of Livestock Development, headed the Caretaker Committee and later become the Managing Director when the Commission was reopened. In the short period he was allowed to occupy the post, Mr. Kariuki proved to be versatile and capable of taking KMC into profit making levels. In that short time, he was able to project to the producers a revitalized and well managed KMC and to almost single-handedly clinch a very favourable deal in the foreign market for the Commission. Interestingly, he was succeeded by a person who had been a production manager in the collapsed Commission since 1985. If the Commission staff had been given a choice between the two, it would have been an unanimous decision in
favour of Maina Kariuki. However, it was a question of politics and not business acumen with whispers to the effect that the new Managing Director, Mr. Lenaronkoito, is close to somebody very senior in the Ministry of Energy.

On the appointment of Board Chairmen, the turnover has been comparatively low. By 1976, the Chairman was Mr. J.L.M. Shako, who continued up to 1978 when Mr. W.P. Barclay took over. Mr. Barclay remained the Chairman up to 31/10/87, when the Commission was closed. Though it is not possible to identify the political leanings, one cannot discount the same knowing the general trend followed in appointing heads of public enterprises in the country. Nevertheless, with the re-opening of the Commission, the current Executive Chairman leaves no doubt about political patronage being at play. This is because the former head of the Armed Forces was appeased by being appointed the Executive Chairman of the Commission; and as Mary shirley observes, "....top executive of SOEs (State Owned Enterprises) are recruited from the ranks of the Civil Service or the Military" (Shirley, World Bank Staff Working Papers No. 577, 1983:52). Hence, it is more important to note that the seventy three year old Retired Major General, who used to head the bureaucratic-no-negotiation military force, is now the full time head of a profit making organization. The new consequence can easily be imagined.

The Permanent Secretaries, Provincial Commissioner and the Deputy Director of Veterinary Services rarely attend the Board meetings. According to a former Board Member, during his three
year period (1983–85), he never saw any of the above officers in the Board Meetings: just their deputies. Hence, being members of other public enterprise Boards, coupled with their other official duties, they are deputised by junior officers from their institutions. For example, in the Ministry of Livestock Development, an Under Secretary or a Senior Assistant Secretary deputises the Permanent Secretary. Moreover, as pointed out in Chapter Three, such "Junior deputies" are in no position to elicit any viewpoint amidst the politically appointed members.

Notwithstanding, the study found out that the Commission’s Board was totally dependent on outside forces. These included the parent Ministry, the Treasury and even personalities. Hence, the Board Meetings were one where members were informed of certain directives having been issued in relation to the agenda. Therefore, in view of such directives, the members did not discuss the particular agenda at all.

One former Board member lamented the lack of sincere deliberations in Board Meetings. He attributed this mainly to "directives" and the immense power of the then Managing Commissioner whom he noted was more powerful than the Chairman. As a result, there were very many directives and most of them originated from the Managing Commissioner. At times he could be heard saying "I was with the 'Big Man' or with so and so and....". This tendency was so rampant that the members wondered "when directives were directives and not guidelines". But as the member observed, sometimes there were no directives as such but the
tactics of the Managing Commissioner to have things his own way. This particular Board member narrated one incident in 1984 when the Managing Commissioner informed the Board Members that the Commission wanted to sell a portion of the Beacon Ranch for Kshs. 40 million (this portion was on lease to BAT) so as to get money to buy drought stricken cattle. (However, Treasury had set money aside for the purpose). The Managing Commissioner told the members that he had talked to the "Old Man" and he had given the okay. This member together with another one (both were very new in the Board), strongly objected to the sale. In the end, the Ranch was never sold and there was no "Old Man" who had sanctioned the sale. However, this member now regrets his stand, for as he later came to understand, he could have been one of the beneficiaries from the sale.

Moreover, in the absence of "directives", the members could sometimes deliberate on a certain agenda and arrive at a consensus. However, on perusing the subsequent minutes during the next Board meeting, they would be shocked to see something totally different from what they had agreed. But to safeguard their tenure, they had no alternative but to confirm the minutes.

Therefore, with such an immense power bestowed on the person of the Managing Commissioner, together with the numerous directives, real or imagined, the Board was just a rubber stamp to okay the directives. In the words of one respondent, the Board was "as powerless as a toothless dog". Hence the question of Board composition, whether good or bad, did not arise.
In addition, information from the Commission that is used for control by the Board comes from the monthly reports which are prepared by the Finance Manager, Production Manager (Athi River), Sales Manager, Branch Managers, and the Personnel Manager. These reports "contain too much detail, are not sufficiently forward looking, lack many vital parameters and are not sufficiently consolidated" (Ministry of Agriculture, 1977:355). Moreover, the authors of the reports are not themselves Board members and so do not attend the Board meetings.

Therefore, no efficiency enhancing motive can be said to have come from the Boards of Kenya Meat Commission. This is mainly because they have been ill-composed, subjected to very high turnovers, and above all, have been politically appointed and controlled. Hence, "Government representation at Board level and the national interest has suffered because of the high turnover of representatives..." (Ndegwa, 1979:25).

Throughout its existence, the Board of Commissioners appears to have been both producer and politically oriented. There has been a bias towards the appointment of distinguished politicians, government officials and producers. Experience in commercial and financial management does not seem to have been given priority that might have been expected for KMC to run as a viable commercial undertaking. According to the words of a former Board member, those appointed to the Board should be people who have "the necessary experience and the technical know-how of dealing and marketing beef in the country" (Personal Survey, May 1990).
As such, "politically motivated or interest oriented appointments generally sacrifice quality of membership and result in conflict of interest, colourization of policy decisions, all of which combine to reduce management efficiency" (Ndewga, 1971:205). It is not surprising therefore, that the poor composition of Kenya Meat Boards of Commissioners made the Commission to operate inefficiently as they were incapable of rendering proper guidance.

As pointed out in Chapter Three, such a Board is a representative Board and is inappropriate to a commercial oriented concern as the Commission. Such a Board lasts as long as it dances to the tune of its political patron(s). Hence, knowing of its inadequate business experience, excessive political interference and temporal existence, the enterprise's survival is equally quite dismal.

Therefore, the Commission required a functional Board of Commissioners. This would have guided the Commission effectively for it would have been composed of people of proven long business standing, and more appropriately, in the meat and livestock industry.

5.3.2.3 Private Abattoirs

This study started by hypothesizing that the more an enterprise is subjected to competition, the more responsive the management becomes and hence the higher the performance. In this regard, the Commission faced a lot of competition from the private
sector and so the management ought to have countered the same and put the Commission to higher performance levels.

This competition against the Commission came from the private abattoirs. For example, the commercial success of the Dagoretti abattoir and similar but smaller abattoirs elsewhere have been the direct result of the demise of the Commission. For instance, in 1987, in Kiambu District, nearly 145,000 cattle were slaughtered and mainly in the principal Dagoretti slaughterhouses which have an average kill capacity of 200 head per day each. In the same year, the Commission's throughput was 6,534 head of cattle in Athi River, Mombasa and Halal with kill capacities of 900, 350 and 40 head of cattle per day respectively.

The Hurlingham Butcheries, Kenya Cold Storage, Kenya Meat Supply and Farmers Choice - between them they account for the equivalent of over 250 head of cattle per day. Their output is supplemented by a number of smaller suppliers including Feedlot Meat Supplies, Kirima Butcheries, West End Butchery and Gilani Butchery.

While Kenya Meat Commission's competitors do not produce canned goods, they do produce other processed meat products, mainly in the form of sausages which provide a useful relatively high income means of disposal for fat, bone trimmings and other low grades. As with canned goods, Kenya Meat Commission is the only organization in the country to possess a meat extract plant. The market for this product is mainly for export although Nestle Foods Kenya Ltd, and Food Specialty Kenya Ltd, have been customers in the
Notwithstanding, the private abattoirs gave the Commission a lot of competition that partly contributed to its final demise. However, at the time of its inception, the Government's wish was for the Commission to establish a slaughter stock and meat processing monopoly in Kenya.

However, after 1971, the country saw the mushrooming of private abattoirs in the urban areas where the Commission operated - rural areas had always been the domain of the private sector. This was done on a gradual basis, partly with the Commission's consent, but more so at the Ministry's discretion. At this time, the Commission had a favourable export market and the world prices were also better (note the significance of foreign exchange), and so it concentrated on this market and allowed a significant number of private abattoirs to operate at the local market.

Come mid 1970s and the world prices started deteriorating. The Commission then tried to recoup the domestic market it had allowed the private abattoirs to penetrate, but to no avail. Having now lost both markets, the Commission slowly but surely sank into oblivion as the private sector mushroomed and prospered.

A number of reasons contributed to the inability of the Commission to compete successfully with the private slaughterhouses. One, the Commission mainly bought livestock on a CDW basis and paid the minimum prices fixed by the Government. The mode of payment took too long as the animal had first to be transported to the Commission, de-hided, inspected, graded and then
weighed. After that a cheque had to be prepared. The whole process took anything between three days to four months. This was a clear disincentive to producers who at times even boycotted making any sales to the Commission. Unlike the Commission, the private abattoirs buys livestock on a liveweight basis (or "on hoof") and payment is done on the spot. In addition, they do not operate on a fixed price policy, but on market prices which are ever changing.

Two, the Commission had a very unaggressive policy of procuring livestock in the numbers and quality required, at different times. Except for high grades which were purchased from established commercial ranchers, receipts of cattle were not planned. More than "75% of cattle were purchased from the pastoralists who brought the cattle at their convenience and the Commission accepted whatever was brought in" (Ministry of Agriculture, 1977:291). The Commission, therefore, had little or no control over its throughput. Table 5.1 has shown the annual variations and the fact that the Commission was able to achieve its break-even point of 137,000 head of cattle in only three times between the years 1976-1987/88. On the other hand, private abattoirs appear generally able to obtain the required number of cattle, at required times and in required quality; by following an aggressive policy of going out to the owners and purchasing selected livestock.

Three, the Commission sold to retailers and institutions at the highest selling prices fixed by the Government for each grade.
By operating under controlled pricing and grading system, the Commission operated under very difficult situations since it could not pass its high operating costs to the retailers and hence to the customers. The private abattoirs, although price controlled, are not effectively controlled as their meat is not graded. Generally, the private abattoirs are able to vary prices depending on the market conditions. A Ministry of Agriculture study noted that, "the flexibility available to private slaughterhouses on buying and selling prices coupled with immediate cash payment offered on live cattle to producers, puts them in an extremely advantageous position against Kenya Meat Commission. Livestock is continuously diverted away from Kenya Meat Commission and KMC is left to accept what is not attractive to the private operators" (Ministry of Agriculture, 1977:292).

Four, the Commission acts as a buyer of last resort especially during drought periods. It therefore has to buy all the livestock delivered and pay the minimum Government price despite the animal's state of emaciation. In comparison, the private sector is under no obligation to buy livestock at any one time. As such, it buys livestock, and the ones it wants, at the going market prices.

Five, the Commission, unlike the private abattoirs, did not advance any credit to the retailers. The Commission required that orders by retailers be paid for at the time of collection or delivery. On the other hand, its competitors, the private abattoirs, provided credit facilities to retailers in some form or other. Hence, few retailers bought from the Commission as they preferred buying from the more accommodative private abattoirs.

Finally, the Commission's abattoirs were operated at high cost international standards involving high overheads, fixed costs and
high hygienic standards which the Commission had to meet. The cost of operation was so high that for a kilogramme of slaughtered animal, the commission spent over K£ 100,000 per year on hygienic standards alone (KMC Annual Report, 1977). Its competitors have lower standards and hence low overheads and so can afford to pay better prices to the producers.

Therefore, the competition between the Commission and the private abattoirs was lopsided since the Commission was hampered by lack of adequate capital, low throughput, high operation costs, pricing and grading system and by being a buyer of last resort in times of drought, among others. As such, the Commission was operating from a disadvantaged point and there was no way it could have competed successfully. As Barbara Grosh has observed, "regulatory environments which hamstring parastatals competing with private firms should be avoided" (Grosh 1988:413). That way, public enterprises will compete under fair conditions and show the benefits of competition in motivating the management towards better performance levels: something which the Commission, under its conditions, could not be able to do.

5.4 Management Functions

As pointed out at the beginning of this Chapter, we have used a Management Framework as our analysis of the performance of the Commission. In the discussion that follows, the study looks at planning, directing, coordination, control, staffing and marketing
5.4.1 Planning

Planning is the most basic of all management functions. Every enterprise has to plan, and its other functions depend upon this planning. Planning therefore involves selecting/identifying the departmental goals and programmes and determining the means of achieving these goals and programmes.

Taken this way, there appears to be no clear Government plan as to what objectives a particular enterprise is going to achieve. In Chapter Three, most enterprises' objectives were shown to be not only vague but also contradictory. In this respect, the Commission's objectives, though requiring that it operates as a commercial enterprise, also gave it certain social and mandatory objectives which it had to achieve. With the contradictory objectives, KMC lacked a clear policy guideline since it pursued both commercial and social goals together. The social goals contradicted or frustrated the achievement of the commercial goals.

Therefore, lacking a clear policy as to which goals it was going to maximise on, even if at the expense of the others, the Commission performed poorly.

The Commission had no realistic employment plan which should have coincided with the fluctuation in throughput. Its employment policy should have been flexible, such that, in times of high throughput, overtime and casual labour would have been utilised,
but during low throughput, the same would have ceased to give way to the optimal number of permanent staff. Instead, the Commission was always overstaffed with a large number of permanent personnel. In addition, casual labourers were almost "permanent".

The Commission's main raw material input was livestock. However, there was no planning in the way it was procured (see Section 5.4.4.2). This, together with inadequate operating capital, resulted in low and fluctuating throughput.

Moreover, in the 1980s, there appeared to be no role prescriptions as to who was to do what. One senior officer from the Auditor General State Corporations, had this to say:

"All senior management staff officers were involved in the buying of cattle --- a thing not in their schedule of duties. They could get money from the Commission and give it to their cattle buyers in the country-side. These cattle buyers would buy cattle from other people and would then take them to the cattle buying centres for auctions (organized by the Livestock and Marketing Division - LMD). It was here at the auctions that the Commission's Officers would grade the cattle into lots of big, small, and medium. The officers would then sell the cattle to the Commission at very high prices thereby making a lot of profit out of the same Commission's money" (Personal Survey, April 1990).

The above not only goes to show the corrupt tendencies that were inherent in the Commission, but also lack of clear schedule of duties.

In the end, this Section has shown that the Commission lacked a clear and coherent policy or plan in such vital areas as in objectives, manpower planning and procurement. Rather expectedly, the study had noted in Chapter One that without planning, an organization would just drift into oblivion: and KMC did exactly that.
5.4.2 Directing

Directing is a complex management function. It embraces all those activities which are designed to encourage the employees to put their best effort effectively and efficiently, both in the short and in the long run. Directing therefore involves the use of certain means in order to induce the employees to perform better. It then involves supervision, salaries and role sanctions, among others.

To begin with, the Commission lacked a clear direction as it received conflicting and contradictory directives from the external agents: the Ministry of Livestock Development and the three bodies embodied in the State Corporations Act, 1986. These agents never harmonised their recommendations and hence each gave its directives separately. This then made it impossible for the management to make a coherent plan and thereby issue feasible directives.

Supervision was done by people who had climbed up the ladder due to the experience they had acquired after working in the Commission for many years. Also nepotism and the political patronage involved in recruiting staff, gave people supervisory roles which they did not merit. This was then a source of low morale for the few qualified and legally hired personnel.

Therefore, those in management who had the mandate to direct, did not command the necessary respect from those they were supposed to supervise due to the manner in which they had acquired their positions.
Hence, the end result was an ineffective staff and an inefficient Commission.

As shown later, the Commission was placed in Category E and hence paid its staff very uncompetitive salaries thereby leading to low morale and high staff turnovers. Moreover, it used to pay its staff late, and in 1985 the salaries used to be as late as by two months.

Due to the poor financial performance of the Commission, the employees never received any end of year bonus. In addition, promotion and salary increments were frozen after 1980 following a government directive to all public enterprises that were not generating profit. In fact, except for house allowance and overtime payments, other role sanctions of whatever type were in inexistent.

Decision making was also a prerogative of the management in conjunction with the external agents. All these things then demotivated the workers and hence the general poor performance of the Commission.

Therefore, directing per se was lacking. Those required to direct were not qualified to do so. Moreover, the employees were demotivated as a result of low and delayed salaries, lack of incentives, and hence, their effort was directed to other areas than those geared to the efficiency of the Commission.
5.4.3 Coordination

Coordination involves ensuring that the diverse but interrelated activities in an enterprise are directed toward the accomplishment of the organizational goals. If the employees activities are not coordinated, they will be working at cross purposes and in some cases against each other. In addition, the larger the enterprise, the more complex the job of coordination.

Therefore, coordination is what gives life to an organisation in that it harmonises the various components of the organisation together. Despite coordination being such a central aspect of an organization's life, the Kenya Meat Commission lacked any meaningful coordination.

First, there was lack of coordination between various departments. For example, there was no coordination between sales and production departments, such that slaughtering of livestock used to take place at a faster rate than the sales were going. This led to stockpiling. A study carried out in 1977 revealed that "in 1976, stock of fresh meat and corned beef built up at the main production plant at Athi River - fresh meat reached a high point of 735 tons which represented about 3.4 months production; cartons of corned beef reached 160 — about 2.5 months production" (Ministry of Agriculture, 1977:344). This then goes to show that there was no coordination of expected local and export sales requirements between the concerned departments.
Second, the manner in which the Commission procured its livestock portrayed an absence of coordination. Many people got involved in procurement roles. Hence, the total number of animals purchased was not coordinated with the money allocated for the purpose and the production facilities at the respective abattoirs.

Third, lack of coordination was also witnessed between the total number of permanent staff and the available workload. Hence, despite the number of permanent staff exceeding the available workload, the Commission also used to hire casual labourers during the low periods. This then had the spiral effect of unnecessary financial expenditure in exuberant wage bills.

Finally, the existence of the Commission's Head Office in Nairobi's Saddler House and then later at Landhies Road Depot, Nairobi also made the coordination of various activities difficult. The senior officers in Nairobi had to travel frequently to Athi River where many of the most important decisions were made. Therefore, not only was a lot of time wasted in travelling but coordination was also lax and difficult.

Therefore, with no serious effort at coordinating the various activities towards goal attainment, the Commission could not stand together and its finally collapsed in October, 1987.
Control involves guiding the organisation in the direction that it should be going in order to accomplish its goals. Controlling therefore implies measurement and evaluation of results; it is necessary if the Manager wants to know how effectively the plan is working, or so to say, how effectively he is managing the state of affairs. Hence, a basic control process involves: establishment of standards (plans), measurement of performance against the standards set, and correction of deviations from standards/plans.

In Section 5.2.1, we noted that prior to 1977, the Commission was an effective and profitable public enterprise. However, since then its performance has been pathetic. One can therefore rightly ask: Why the poor performance?.

In KMC, the general lack of control can be said to have contributed most to the demise of the Commission. The Commission inadvertently overlooked control as an important function in Management. In the discussion below, the study shows how the Commission operated as if it had no managers to match the employees role behaviours to role prescriptions. This is because they did not institute adequate control measures in line with the expected performance. As a result, the Commission performed ineffectively.

The study looks at the many areas where control was needed, but was non-existent, through three areas of control: on human resources, on material resources and on financial resources.
On Human Resources

As shown in an earlier Section and in the next Section, the Commission's recruitment procedures were mainly on patronage lines rather than on merit. As such, people were appointed to perform certain roles which they were not suited to. This not only affected the employees' morale but also the performance of the Commission. Therefore, political patronage and ethnicity were direct causes of the Commission's malaise.

In addition to poor staffing, the Commission was also overstaffed. In a study done in 1977, it was recommended that the Commission cut its permanent staff by 400 members as it was grossly overstaffed (Ministry of Agriculture, 1977). Concurring with this report, a past chairman of the caretaker Committee and former Managing Commissioner, Mr. Maina Kariuki, noted that for a viable Commission, a workforce of only 400 permanent employees was adequate (Daily Nation, 9th December, 1989). At the time of closure in October, 1987 the Commission had a total of 1,367 employees.

Finally, from 1950 to 1987, the Commission's head office was in Nairobi, at Saddler House, Koinange Street. About 100 of the approximately 1,400 employees of the Commission worked at this office. The 11,500 square feet were rented at Saddler House at a cost of K£ 22,000 per year (KMC Accounts Department). Senior Staff had to frequently visit Athi River, 41 Km away. In this respect, the officers used to claim commuting mileage from Nairobi to Athi.
River. These claims which used to be settled at the end of the month were greatly prone to abuse by the officers who preferred using their personal vehicles and even exaggerated the number of times travelled.

Therefore, the Commission did not control the number and the calibre of its workforce which it also gave loopholes to embezzle the Commission's resources. It is doubtful whether such manpower, which for one was demoralised and uncontrolled, could be expected to boost the Commission's performance.

5.4.4.2 On Material Resources

In this sub-theme, the study critically looks at two procurement methods, discussed in Chapter Four, to show how they acted as disincentive to producers/suppliers and how they led to losses of huge sums of money due to lack of control. The two procurement methods are the Direct On-Farm Livestock Purchase and the On-Farm Deferred Payment.

The direct On-Farm Livestock Purchase, commonly referred to as liveweight or "on hoof" buying, was used, as the name implies, in the purchasing of animals on hoof (standing) or liveweight and visual condition grading basis.

This method was corruptly used to embezzle money from the Commission due to collaboration of both the weighing officers and the farmers. In 1984, the Board members were informed that there was considerable scope for fraudulent manipulation of weights at
the farmers' weighing machine. This was because of lack of an automatic weighing machine which enabled fraudulent overpayments to be made to cattle traders.

Accordingly,

"Investigations revealed that this was a collusive fraud involving --- computer operations Supervisor and a couple of cattle traders. The mode was for the weight of bulls to be overstated on a fresh mob sheet of the trader(s) concerned. This fraudulent mob sheet was prepared by intervention in the normal procedure by the Computer Operations Supervisor" (KMC Board Minutes, March, 1984:2).

Though the supervisor concerned was summarily dismissed and the traders implicated black-listed with no further orders being placed with them, the Commission had lost over Ksh. 50,000 (KMC Minutes, March, 1984:3). Not covered by Insurance for this type of fraud, the loss was written off.

According to a former caretaker Chairman and later Managing Commissioner, the Commission used to lose a great deal of money in buying animals in liveweight. In a T.V Press Conference on August 22, 1989, Mr. Kariuki asserted that animals bought (on liveweight) were not the same animals that arrived at the Commission. For example, in 1985, a total of 2,331 head of cattle purchased from Isiolo, Ukasi and Mombasa and valued at K£ 173,777 could not be accounted for and were therefore deemed lost (KMC Annual Report, 1985). The animals were never recovered and nobody was penalised.

Large variances also existed between liveweight buying and CDW after slaughter. In 1985, there was a variance ranging between 25% and 103% between liveweight grading at the time of buying cattle in
the field and the cold dressed weight after slaughter (KMC Annual Report, 1985). According to the Auditors report during the period, there was no control over cattle buying, in that, according to the buyer's report, liveweight cattle buying rates were considerably higher that those approved by the Commission (KMC Annual Report, 1985).

In addition, from a cost benefit analysis point of view, transport paid to cattle transporters appeared high when correlated with the cattle transported. There were long delays of up to three months in transporting cattle purchased from remote areas to the Beacon Ranch in Athi River. As a result of these long delays, the Commission was involved in considerable expenditure in form of herdsman wages and the Administrative Police who looked after cattle while awaiting transport to the Beacon Ranch. For instance, very substantial payments of Ksh.1,467,852 were made to herdsmen between January and August, 1985 while a further sum of Ksh.450,547 was made to the Administrative Police in April, 1985 (KMC Annual Report, 1985). This can be used to explain the great loss in 1985 relative to the other years as shown in Figure 5.1.

Therefore by buying animals on the liveweight method, the Commission lost a lot of money in the process. Ironically, the producers preferred to sell their animals on liveweight basis as payment was prompt.

The other procurement method is the On-Farm Deferred Payment commonly referred to as Cold Dressed Weight (CDW). Here, the payment for the cattle purchased is deferred until after slaughter
and it is then based on the carcass weight recorded after grading at the slaughter plant.

Generally, the producers/suppliers are opposed to the CDW method due to the considerable delays experienced in the payment procedure. The delays are experienced in the grading and payment process which can take the supplier anything between three days to four months to get the cheque. This method of deferred payment appears to be a clear disincentive to producers to make supplies to the Commission. This is because, "the producer wants to know what he is going to be paid and prefers payment on the spot rather than accept a cold dressed weight from the factory 250 miles away (from Trans Nzoia)" (Report of Inquiry into the Kenya Meat Industry, 1956:8). Hence, by the time of closure, the Commission owed farmers/suppliers a total of Ksh. 4 million in payment arrears (The Standard, 30th August, 1990).

The CDW system is also found to harbour a high element of risk on the part of the producer. After his animal has been accepted by the Commission, he cannot immediately tell whether it will be graded "premium" for which he would get Sh. 26.00 or "manufacture" for which he would be paid sh. 9.00 per kg. Moreover, his animal can be declared of a less weight than it is actually the case, or even be condemned. As such, producers have a feeling of mistrust of a collaboration between the Commission and Meat Inspector/Grader. By comparison, an animal sold to a private slaughterhouse is paid for on the spot.
Therefore, KMC procurement methods ended up chasing away the would-be-suppliers to the private abattoirs. With the abuse of procurement methods and lack of trust on the Meat Inspector/Graders by the suppliers, issues which would have been corrected/controlled by the Management, the suppliers 'boycotted' the Commission thereby besetting it with low and fluctuating throughput. This then forced the Commission to operate below the 900 and 350 cattle capacity per day in both Athi River and Mombasa abattoirs respectively. By operating below the given capacity, the Commission spent a lot of money due to the resultant high overheads.

The Commission's break-even point is around 137,000 head of cattle (Ministry of Agriculture, 1977:294). From Table 5.1 and Figure 5.2, it can be observed that the Commission was able to achieve this break-even point in only three years during the 1976-1987/88 period. These were: 1976 - 288,424 head; 1977 - 158,136 head; and 1984 - 222,729 head.

One common thing about these throughput is that, they are all as a result of drought which forced the farmers, especially the pastoralists to sell their livestock or risk its eventual death. As such, both 1976 and 1984 were drought years, with 1977 benefiting from the carry-over of the 1976 drought effect. However, the Commission still returned losses in both 1977 and 1984 despite having attained the break-even point. The reason was that, as a buyer of last resort, the Commission was legally bound by the Act to buy all the animals delivered irrespective of their state of emaciation. Hence, most of the animals bought were very weak.
and only suitable for the low Manufacture Grade and for canned meat (note the poor export market). In fact, "about 30% -35% of the carcass was really only good for the by-products" (KMC Board Minutes, December, 1988:5). In addition, the lowest average animal weight ever was recorded in 1984 when the animals purchased weighed an average of 94 kg CDW. See Table 5.1.

The Commission, therefore, generally operated under capacity with the lowest throughput ever occurring after 1985 when the Government withdrew all further financial assistance. The purchases in this period were: 1985 - 116,326 head; 1986 (upto June) - 17,635 head; 1986/87 - 6,534 head; and 1987/88 - 12,510 head (KMC Annual Reports, 1985-1987/88). Losses incurred during the four years were also among the highest ever. These can be observed graphically in Figure 5.1.

By having its producer prices controlled and as a buyer of last resort during drought periods, the Commission competed unsuccessfully and showed vast fluctuations in throughput, with the producers taking their livestock to the Commission when they knew there would be no other buyer. It should be noted that, the private slaughterhouses did not participate in price stabilization and so, during drought years most cattle producers turned to the Commission to receive the "fair" long-run price to which they were entitled (by the Government). However, during the rainy years, the suppliers turned to the private sector where they received full market price, above that paid by the Commission. This amplified cycle was most dramatically illustrated in 1984 when annual
throughput tripled, only to be halved the following year. Hence, it was financially impossible for the Commission to operate a self-financing price stabilization scheme when it competed with private abattoirs which had no such obligation.

The vast fluctuation in throughput militated against profitable operations. It also encroached on the labour aspect, such that in times of drought, the throughput at Athi River could rise to 1,200 head per day (Athi River capacity is 900 head per day), necessitating the working of considerable overtime and the employment of a large number of casual labour. Such periods could be followed by a drop in throughput to below 500 head per day. Hence, there was a serious under-utilization of plant and labour with unit costs becoming very excessive.

However, despite meeting the social goals on livestock industry imperfectly, the Commission did nothing to avert the corrupt procurement procedures and militate against the low throughput. Therefore, with no control measures taken, the Commission performed poorly.

Figure 5.2 shows the low and fluctuating cattle purchases of the Commission between 1976 and June 1988.
5.4.4.3 On Financial Resources

Apart from the high overheads arising from the above two subthemes, other areas in which the Commission lost money included the following:—

One, the Commission's abattoirs were supposed to observe stringent and very high hygiene standards. This, together with the low throughput cited above, increased the Commission's operating costs to over K£ 100,000 per kg of slaughtered animal per year on hygiene alone (KMC Annual Report, 1977). In addition, while the private abattoirs operated at slaughter costs ranging from Ksh.50 to Ksh.90 per head, in contrast, the Commission's slaughter cost
stated in the FAO Report in 1978 (albeit a low output year) were Ksh.988 per head (U.I.C. Report, 1989:110).

Two, the Commission lacked any comprehensive budgetary control mechanisms which then resulted in lack of accounting and embezzlement. Accordingly, the Board members decried the poor accounting procedures at the Commission. They observed that,

"The practice of budgetary control had fallen in complete disuse over the --- years at KMC. --- an attempt was made to establish afresh budgetary control procedures and to carry accountability to the level of departmental foremen, who prepared their own budgets ---. Unfortunately, and due to problems arising from the poor accounting procedures (including deficiencies in our computerised accounting methods), we fell short on providing Budgetors with a reliable feedback of actuals ---" (KMC Board Paper, 1/84:2).

Our third point draws from the above. We find that, the Commission used to write-off any resultant discrepancies without instituting any investigations to pin-point those responsible for the losses. For example, in 1984, salaries, wages and related control accounts in the general ledger had unexplained reconciliation differences amounting to K£ 4,550 which the Commission wrote off apparently without investigations to establish the causes. In addition, physical stock count on beef with bone, small stock and beef cuts carried out as of 31st December, 1984 revealed discrepancies between physical stock and book records that amounted to a loss of K£ 111,328.45 (KMC Annual Report, 1984). Table 5.2 summarises the situation.
Table 5:2  Physical Stock Count as of 31st December, 1984

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>PHYSICAL COUNT VALUE</th>
<th>BOOK VALUE</th>
<th>SHORTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef with Bone</td>
<td>K£. 139,513.70</td>
<td>K£. 199,175.60</td>
<td>K£. 59,661.90</td>
</tr>
<tr>
<td>Small Stock</td>
<td>K£. 34,963.80</td>
<td>K£. 42,870.05</td>
<td>K£. 7,906.25</td>
</tr>
<tr>
<td>Beef Cuts (Mombasa and Makupa)</td>
<td>K£. 66,053.55</td>
<td>K£. 109,813.85</td>
<td>K£. 43,760.30</td>
</tr>
</tbody>
</table>

TOTAL SHORTAGE 111,328.45

Source: KMC Annual Report, 1984

These shortages were also written off without any investigations being instituted. In his report, the Auditor General lamented that "the practice of writing off such shortages without first having to carry out proper investigations to establish the causes of the same could provide opportunity for misappropriation of the Commission's funds" (KMC Annual Report, 1984).

The people who were supposed to effect the control mechanisms were the same ones who misused them. For example, it was alleged that, to buy the cheapest pieces of meat at a given discount one had to know the senior officers there. A Kenya Times Reporter recalled this in his observation that,

"Many people still recall the trips that were being made by wealthy people to the Landhies road Depot of KMC every Friday to collect special orders at highly reduced prices and some are known to have been getting complimentary cuts of carefully chosen topsides, sirloins, steak, name it.

"I happen to know as a fact that to get your name on this privileged special 'family pack' list without the knowledge of the Managing Commissioner was next to impossible ---" (Kenya Times, August 28, 1989)."
This shows that, controlling, a central function in management, was virtually non-existent. It thereby made the Commission look like a haven from which the respective officers could enrich themselves and also give favours.

Four, during the profit making years in the late sixties and early seventies, the Commission undertook expansion and modernization programmes at Athi River and Mombasa. The projects were being financed from internal sources. At the Athi River plant, the modernization and expansion programme comprised new chiller and freezer block. The projects were undertaken "in order to handle more efficiently a greater throughput without which high running costs and overheads will be unavoidable" (KMC Annual Reports, 1983). These expansion programmes were completed in September, 1974 at a cost of K£ 2.83 million. Therefore, we find that during the profit making years of the Commission, instead of putting the surplus in a reserve fund, the Commission undertook expansion and modernization programmes. We note here that, with completion of the same, which coincided with poor international meat prices, the Commission only returned operating profit once - in 1976. (The Commission made losses in 1974 and 1975). It is then not a wonder that in the same year, the Commission wrote the following in its Annual Report "--- due to the adverse effect this heavy investment financing from our resources has had on our operations, the Commission is seeking capital finance in retrospect" (KMC Annual Report 1974). However, the money has never been given.
Finally, the machinery at the plant was allegedly bought second-hand from Dar-es Salaam, Tanzania in 1950. Except for a new boiler and a freezer bought and installed in the early 1970s during the Commission's expansion and modernization programme, no other machinery has been installed at the plants. Taking into account the fact that food technology is ever changing, the Commission's machinery is then by all means obsolete, and a large maintenance crew has to be deployed to keep it operating.

Therefore, the Commission made no attempt to arrest the prevalent deviation in the line with the expected performance. In the circumstances, staffing, purchases and financial resources of the Commission became uncontrollable as a state of "free for all" dawned on the Commission thereby hampering its performance.

5.4.5 **Staffing**

We now look at the effect that staffing, one of our management functions, had vis-a-vis the performance of the Commission.

By the time of closure, KMC had a staff force of 1,367 employees, of which approximately 118 were management staff. In addition, KMC routinely employed casual labourers, the number of which varied between 300 to 500. In a study carried out by the Ministry of Agriculture, it was found that the Commission was overstaffed with permanent personnel. Hence, there was little flexibility to vary the workforce with the work load, such that, in times of high throughput, a large labour force would be deployed
with the reverse being the same in times of low throughput. The study concluded that, the then 1,400 permanent staff could be reduced by as many as 400 and the shortfall made up, in times of high throughput, by overtime and casual labour (Ministry of Agriculture, 1977). In addition, a U.I.C report found that the Commission's levels of staffing "were excessive in relation to the facilities of Kenya Meat Commission and the production levels achieved by international standards" (U.I.C. Report, 1989:111).

Apart from being overstaffed, the Commission, like most other public enterprises in the country, was also poorly staffed. As shown earlier, both the Chairman and the Managing Commissioner's posts, were highly politicised posts which did not reflect any professional ability to perform the roles in question. As noted in the Duncan Ndegwa Report, "--- appointment of Chairmen of the Board --- reflect convenience rather than suitability ---" (Ndegwa, 1971:205).

Therefore, political loyalty in the Commission over-rode operational skills, and hence, those appointed were in no position to put forward any meaningful proposal aimed at improving the Commission's performance. For example, the high turnover of Managing Commissioners, outlined earlier, is a clear indication that appointments were just made in a haphazard manner without any due consideration being given to the individual's managerial capability. Such high turnover just led to total confusion since before one had hardly began a certain line of action, he was replaced. Hence, the enterprise tended to lose continuity,
coordination and a clear direction of its activities. This was then a fertile ground for mismanagement to thrive in and consequently poor performance. On this, Rweyemamu aptly observes that "--- the term of office of the Chairman and directors may be so short that continuity, which is one of the secrets of success -- is often disturbed" (Rweyemamu, 1975:244).

Secondly, the Commission relied on a good number of staff who had low academic qualifications which sometimes made it very difficult to train the employees. Despite this, the study found that 24% of the respondents (unionisable) had attended various courses and all claimed that the courses were very useful. However, a Board Paper observed that,

"It is noted with regret that, despite the various training courses conducted, the quality of work remains inferior. It is clear that some additional and competent --- staff will be needed" (KMC Board Paper, 12/84:1). This concurred with our findings. According to the 46 unionisable employees in our sample, the following frequencies on employees academic standards were derived.

<table>
<thead>
<tr>
<th>ACADEMIC STANDARD</th>
<th>NUMBER OF EMPLOYEES</th>
<th>PERCENTAGE OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to Form Six</td>
<td>2</td>
<td>4.3</td>
</tr>
<tr>
<td>Up to Form Four</td>
<td>16</td>
<td>34.8</td>
</tr>
<tr>
<td>Up to Form Two</td>
<td>7</td>
<td>15.2</td>
</tr>
<tr>
<td>Standard Seven and Below</td>
<td>21</td>
<td>45.7</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>100</td>
</tr>
</tbody>
</table>

However, due to the number of years some staff members had worked, they had undoubtedly acquired the necessary craftsmanship. During the research survey, it was found that a number of section heads, the Supervisors and Charge Hands (below the Supervisors level), more so in the production section, could only fluently communicate in Kiswahili, in addition of course, to their mother tongue. The study found that most of them are people who, having been employed in the late 1950s and early 1960s, some as groundsmen, gained experience through the ranks to management levels (Supervisors are in the management category). But as one Quality Controller pointed out, "due to the nature of their 'training' and their low academic standards, they cannot adequately explain why they do a particular thing" (Personal Survey, May, 1990).

During the author's tour of the Freezers Section, he asked the Supervisor in-charge why the freezers have to be kept at temperatures between 1°C - 5°C when in use. The supervisor was clearly at a loss, mumbling something like: "That is how it is always done". The correct answer which the author came to know afterwards was,

"It is in order to preserve meat. However, the main reason is to allow the process of rigor mortis to take place. Meat eaten immediately after slaughter is not meat but muscles. Muscles become meat only after the onset of rigor mortis, and this takes place within 12-18 hours and has the effect of making meat very tender.

Therefore, to preserve meat and to allow rigor mortis to take place, the meat has to be kept in the freezers at temperatures between 1°C and 5°C" (Personal Survey, May, 1990).
That is then an example of the calibre of Supervisors in the Commission. Notwithstanding, the low level of education of staff in various sections such as freezers, offals, laundry, transport, killing floor, engineering, security, etc, was not mainly a hindrance to higher production and efficiency. Arguably, these people were so thorough in their respective areas that higher academic qualifications were not necessary.

The Personnel Department agreed that the Commission had employees in senior posts who lacked any academic qualifications. It however observed that very little could be done to rectify the situation in the foreseeable future. It noted that the Commission had in 1980 recruited eight Bachelor of Science graduates to man the various sections in the Production Department. However, by 1985, only one graduate remained, while the rest had resigned. In fact, the remaining graduate was redesignated to a Public Relations Officer. It attributed their resignations to the kind of work in the department, which is mainly manual, tedious, messy and bloody. It therefore reiterated that "academic qualifications in Production are irrelevant" (Personal Survey, May, 1990). Hence, most of the employees in the department were recalled when the Commission was reopened in 1989.

Though this is the case, secondary school leavers with good passes in Division II and III, as well as "A" level certificate holders are deployed in Accounts, Auditing, and Stores Departments. In addition, graduate and diploma certificate holders occupied various management posts and headed other sections of the
Commission. In spite of this,

"a great many of the management team in KMC have not had the benefit of working under professional men for long enough. Most of them were moved up to their present positions when a number of senior people left KMC. Several of these managers appear to possess excellent potential but it would be a mistake to expect too much of them yet: pushing them too fast now could be detrimental to their careers" (Ministry of Agriculture, 1977:342).

The Commission has elaborate job descriptions which are constantly evaluated and updated, but it has never had schemes of service. According to the Personnel Department, it has been very difficult to do so since some tasks require just manual dexterity - something which is very difficult to quantify.

Moreover, the Commission is a very "small organization" and so the chances of moving from one grade to another (especially in the management level) are very slim since the next substantive post is already filled and the incumbent might be younger than the aspirant. Hence, short of death or resignation of the incumbent, one cannot expect to "move up the ladder" in the Commission. As a result, and in the words of Personnel and Training Manager, "It would be an exercise in futility to do a scheme of service" (Personal Survey, May, 1990).

Therefore, in the absence of schemes of service, the tendency has been to deploy "haphazardly" or to shift an employee from one working point to another depending on the exigencies of duty. However, patronage has mainly been at play. For example, a former Assistant Canning Manager (Grade 5) was in early 1990 promoted to Assistant Sales and Marketing Manager, Grade 3. The officer was however not the most qualified for the post, but with ethnic
affiliations similar to the Executive Chairman's, he had the "necessary qualifications". The officer in question had apparently failed to pass a Diploma Certificate in Food Technology at the Kenya Polytechnic in 1979.

Therefore, ethnic affiliations and employment/deployment are very closely related at the Commission. In fact, a daughter of the Executive Chairman was this year (1991) employed as a Secretary to the Personnel and Training Manager. No interviews were done to identify the "best" person for the post. She was just taken in to fill a vacant post.

One management staff voiced the futility of working at the Commission if one is not a member of the "advantaged ethnic group". She was chatting with the author in a vernacular language when she decried: "Here we just 'work' nobody 'wants' us here at all" (Personal Survey, May, 1990). Her words (in verbatim) summed up the negative attitude of many employees towards their work and the management. This kind of thing results in withdrawal, laxity, lack of motivation and hence organizational inefficiency.

Therefore, as the study found in Chapter Three, the Commission, like other public enterprises, is largely influenced by patronage in its employment policies. Table 5.4 shows the breakdown of the Commission's Management on ethnic lines.
### Table 5.4: Ethnic Composition of KMC Management as of May, 1990

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samburu</td>
<td>1</td>
<td>1.1</td>
</tr>
<tr>
<td>Taita</td>
<td>1</td>
<td>1.1</td>
</tr>
<tr>
<td>Turkana</td>
<td>1</td>
<td>1.1</td>
</tr>
<tr>
<td>Meru</td>
<td>2</td>
<td>2.2</td>
</tr>
<tr>
<td>Maasai</td>
<td>3</td>
<td>3.3</td>
</tr>
<tr>
<td>Kisii</td>
<td>5</td>
<td>5.6</td>
</tr>
<tr>
<td>Somali</td>
<td>5</td>
<td>5.6</td>
</tr>
<tr>
<td>Luhya</td>
<td>6</td>
<td>6.7</td>
</tr>
<tr>
<td>Kalenjin</td>
<td>7</td>
<td>7.8</td>
</tr>
<tr>
<td>Luo</td>
<td>11</td>
<td>12.2</td>
</tr>
<tr>
<td>Kikuyu</td>
<td>23</td>
<td>25.5</td>
</tr>
<tr>
<td>Kamba</td>
<td>25</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: KMC Personnel Department, May, 1990.*

From the Table, there are more Kambas in management than any other ethnic group. In fact, according to a source in the Personnel Department, there were 40 Kambas in management by the time the Commission was closed in 1987. Though the number has somehow declined, they occupy some of the most influential and senior posts in the organization. These include the Executive Chairman, Company Secretary, Personnel and Training Manager (since 1980), Area Manager, Nairobi and the Public Relations Officer.

The study found that some of the people in management, especially those appointed after the Commission was reopened, have
been employed through directives from various quarters. These include: The Samburu, because of his connections with a highly placed official in the Ministry of Energy. The Turkana, the five Somalis and six of the Kalenjins were employed through a directive from the Office of the President which is alleged to have directly forwarded the names. Four of the six Luhyas were employed when their kinsman was the Minister for Livestock Development. Finally, a son of a Director (a Kikuyu) in the parent Ministry was recently employed. He is a graduate from India.

Therefore, overstaffing, low academically qualified staff and patronage, are very rife in the Commission. Their consequences can very easily be surmised: poor performance of the Commission.

5.4.5.1 Staff Remunerations

Though we have just pointed out that overstaffing was a major cause of Kenya Meat Commission's poor performance, we are also of the opinion that, relative to remuneration, overstaffing in total paled in significance. This is because KMC was one of the most poorly paying public enterprises. According to public enterprise Categories, it was placed in Category E (See Appendix II). In this Category are other public enterprises which are infamous for their poor performance. These include the already liquidated Kenya National Construction Corporation, the trouble-torn Kenya Cashewnuts Limited, the East African Sugar Industries Limited and Cotton Lint and Marketing Board, among others.
One thing that is common with all these public enterprises is that they are all renowned loss makers. As such, KMC was not there by mistake. KMC wage levels, especially for the unionisable grades, 10-15, were very low. See appendix III. The lowest paid employee, grade 15, earned a meagre Ksh.748.50 per month by 1987. This compares favourably with a civil servant Job Group A who earns a minimum of Ksh.725.00 in the scale of K£ 435x8 - 489x21 - 594x24 - 690 p.a (DPM Personnel circular No. 5 dated 15th May, 1987). Moreover, there were even cases of people who had worked for 20 years and above but were earning as little as Ksh. 900 per month. No unionisable staff was earning over Ksh.2,753.50 per month.

Management staff, grades 1 to 9 were not any better. Chief Executives were paid a salary in the range of Ksh.8,260 to Ksh.10,270 per month. Most of the management staff (Grades 4 to 9) were earning a salary in the region of Ksh. 1,400 and Ksh. 5,020 per month. See appendix III. It is no wonder that the Commission not only failed to attract better qualified staff (KMC Annual Report, 1984) but was also faced with very high staff turnover at both the management and unionisable levels as people looked for better paying jobs elsewhere. We further observe that the poor salaries resulted in a general poor morale among all employees and consequently low production.

With the reopening of the Commission in October, 1989 its salary structure was adjusted and thereby upgraded from Category E to Category C. In Category C, the Commission is at the same level with Kenya Power and Lighting Company Ltd, Kenya Posts and
Telecommunications, Kenya Tea Development Authority, among others. (See Appendix II and III). The study learnt that, one of the reasons why the Commission was elevated to Category C was to enable it to attract better qualified personnel as it now compared favourably with the private sector and other well paying public enterprises. In this Category, the Chief Executives earn a monthly salary in the range of Ksh. 17,170 and Ksh. 18,910 per month. This upgrading hiked the salaries of all staff members to almost double what they used to earn before the closure. The increases ranged between 66% and 226%. The minimum salary for the lowest paid worker now stands at Ksh. 1,240 per month. These increases obviously boosted the workers morale and gave them job satisfaction. 67% of the unionisable workers responded that they no longer required a Trade Union to represent them as it had earlier mainly failed to have their salaries increased to reasonable amounts.

Though the Commission now shares the same Category with profit makers, it is most unlikely that it is going to do as well. Salaries are not everything. Though low salaries resulted in low morale and hence low production, there are other glaring issues that need to be ironed out/restructured before a viable Kenya Meat Commission can be realised.
Decision making is an important part of all the management functions and it is certainly considered as a prime focus of Management, since it underlies everything that the management does. When planning, decisions must be made about alternatives. When directing, it must be decided what type of leadership style to exhibit and how best to motivate the employees. When coordinating, it must be decided what parts of the enterprise need additional help in intergrading their activities with other units in the enterprise. When controlling, it must be decided if the difference between what was planned and what actually took place is important enough to worry about.

Decision making is therefore an important function in management. Good decision making is said to be a process whereby various viewpoints are solicited from all those who are going to be affected, directly or indirectly, by the proposed decision. As such, all the various viewpoints are analysed and the result taken into account. Hence, the final decision is something derived from the different viewpoints and perspectives.

The act of involving the staff in decision making has been hailed by many authors on public enterprises (i.e Shirley, 1983 and Greacic, 1985) as a factor that increases the employees motivation and hence higher production. But we find that most organizations ignore the employees' contribution to decision making thereby seeing it as an exclusive of the management.
Among such organizations is the Kenya Meat Commission where all the unionisable staff interviewed responded that they were never involved in decision making.

According to the sample of the 46 unionisable employees interviewed, their responses as to who makes decisions varied as follows: 60.9% responded that it is the Board of Commissioners; 17.4% the Managing Director; 10.9% the Executive Chairman; 6.5% the Personnel and Training Manager; while 4.8% said that it is the parent Ministry.

Ironically, 60% of the ten Management staff interviewed responded that the unionisable employees were involved in decision making, though not to a great extent. Their (unionisable employees) participation in decision making could be seen through their Trade Union, the Kenya Union of Commercial Food and Allied Workers, since the union and the Commission maintained a cordial working relationship. Hence, the Union was an effective organ for the Commission since it is through it the workers participated in developing the various employer-worker agreement which regulated their relationship at the Commission.

All the same, most decisions of the Kenya Meat Commission are made by the Ministry of Livestock Development via the Board of Commissioners. These include decisions on investments, recruitment, promotion, terminations of appointments, etc. Other bodies involved in decision making include the Inspectorate of State Corporation on salaries, the Parastatal Advisory Committee on investments, etc. The treasury, through the Parastatal Advisory
Committee, has to be consulted before any major investment is made. As a result, there are various bodies that make decisions affecting the Kenya Meat Commission. It has been noted elsewhere that these decisions are often conflicting and uncoordinated, thereby resulting in confusion and hence inefficiency on the part of the Commission. The end result is management's inability to decide as to what to implement.

Therefore, like all public enterprises, the Commission has painfully experienced the requirement that "Parastatals should seek approval from the parent Ministries or specified Government departments, such as the Inspectorate of Statutory Boards, before implementing some of their most important decisions". This is a "costly exercise that considerably reduces (its) efficiency" (Daily Nation, July 16, 1990).

5.4.6 Marketing

Our conclusion with respect to marketing is that, the Marketing Department, though in existence, gave little consideration to what the Commission ought to have been selling, how it would present it, where it would sell and what the market potential was. Hence, there was a complete lack of a realistic market plan, such that, sales tended to be made because a customer placed an order, but not as result of an active decision by the Commission on what to sell.
As shown in Chapter Four, the Commission had a very small share of the local market. For one, and as earlier stated, it had in the early 1970s unmistakably concentrated on the then profitable export market and had in the process completely lost any control it had on the local market. Secondly, its grading and controlled consumer pricing systems were a disincentive to the retailers. Thirdly, the fact that it never offered any credit facilities to the retailers as was the case with the private abattoirs, put off many would-be-willing retailers. In this regard, the Commission appears to have had poor conception of the local market. Its advertising was minimal and it did not even try to capitalize on the latent goodwill of abattoirs known to have had high standards such as Gilani and Hurligham Butchery.

Like the Domestic market, the export market was also wrought with a lot of competition. We find that, although the Commission's export pattern, especially for fresh chilled and frozen beef had been widespread, it faced competition from most major meat exporting Countries. In the European market, the main suppliers were Eastern Europe, Argentina, Australia and New Zealand. African market were satisfied by a wide variety of suppliers including many in Europe, especially for high quality, well packaged products.

In Europe, Kenya had little comparative advantage in fresh chilled and frozen meat products. Other countries had a well established name, a high volume, extensive marketing experience, no question about health standards and even a transport cost advantage because of shipping rates and volumes.
Therefore, despite of staff competition, there was little formal planning in the department. Apart from the budget figure available from the coming year's profit plan, there was no summary of expected sales over the coming few months. It lacked any statement of expected short term sales. Future local and export sales requirements were at no point consolidated and discussed with Livestock and Production Departments.

The Commission lacked a comprehensive and well planned marketing and sales format for both domestic and export markets. As a result, sales remained low and inadequate to give the Commission any operating surplus. Figure 5.3 summarises this.

Moreover, the inadequate financial position of the Commission hampered its ability to compete favourably. Hence, "some overseas buyers were forced to cancel orders and letters of credit due to -- inability to ship promptly" (KMC Board Paper, 2/84:3).

Finally, the Commission stands accused of failing to properly forecast on market situations and hence misconstrued that the export market would always remain profitable and thereby left the domestic market open to the private sector. This poor long-range plan was a major cause of its inept performances.
5.5 **Summary: Performance of Kenya Meat Commission**

K.M.C was a public enterprise which was expected to generate profit and at the same time subsidize important classes of consumers and suppliers. However, as a commercial enterprise, it performed miserably and thereby ended up providing very poor service to the group it intended to benefit. As such, one can rightly talk of KMC's failure in all dimensions of performance: commercially and socially.

Like other public enterprises, the Commission interacted with the external agents in its larger environment.
However, the Commission was unable to manipulate and accommodate the influences of the external agents. That being the case, the Commission's autonomy was weakened thereby rendering it prey to mismanagement and making it an ineffective competitor.

In addition, the Commission ignored the principal management functions which are paramount for good performance. Hence, with poor planning, sub-standard directing, uncoordinated and uncontrolled activities, together with poor staffing norms, the Commission was unable to achieve its objectives.

In the circumstances, despite its initial monopoly in both domestic meat market and as the sole exporter of meat and meat related by-products, the Commission's projection of future market needs saw it opt for the then luxurious export market. However, this decision was a costly one for the Commission as it ended up losing its grip on both markets. With nowhere else to turn to, and with the end of Government subsidy in 1985, the Commission was finally declared technically insolvent in October, 1987.
CHAPTER SIX

CONCLUSION

6.1 Introduction

This study has noted that the Government has heavily relied on public enterprises for social and economic development. However, despite the reliance, their overall performance has been dismal thereby rendering them to seek Government assistance for their budget deficit financing. The study has further noted that, K.M.C, which was established by an Act of Parliament in 1950, had only shown operating surplus upto 1976, and since then, upto the time it was declared technically insolvent in October, 1987 it had relied on Government subsidy for its operations.

As a result of this pathetic situation of our public enterprises, which are mainly parasitic, the study has raised the question whether there is something intrinsic in the enterprises that stops them from performing efficiently.

This study has sought to explain the management of public enterprises in Kenya and to specifically examine the management of K.M.C. It has therefore examined the Management of the Commission through a Management Framework which includes the following principal management functions: planning, directing, coordination, control, staffing and the management of the external environment.
6.2  Main Conclusions

6.2.1  From Literature Review

The Literature Review indicated that, in both the developed and developing countries; capitalist, communist and mixed economies alike, the idea of public enterprise as an instrument of social and economic development is widely used, with tremendous increase taking place in the Post - World War II period. All these countries have come to utilise public enterprises for one reason or another, but the main driving force has been practical necessity, the need for economic development, defence and strategic considerations, and the specific country's political philosophy.

First, the inability of private capital due to heavy investments, low profit or the risks involved, the need to take over important ailing concerns, and the departing foreign entrepreneurs in the case of the newly independent states created a practical necessity to establish public enterprises to fill the gap. Second, under economic development, public enterprises so established woo foreign investors, generate profit, and bring economic development to certain areas. Third, the question of national security has given rise to the establishment of certain strategic enterprises for defence and strategic considerations. Lastly, on political philosophy, the demand for public control and economic independence has led to the nationalization of some private enterprises, and the preemption of certain economic sectors as the exclusive domain of public enterprise. It would however
appear that, the need for economic development has been the main reason why public enterprises have been established in most countries.

The created public enterprises are easily classified into various forms. Different authors have therefore come up with different classifications, though some similarities prevail. The classification depends on what a particular author wants to explain. In addition, classification is not directly related to performance, if anything, it is related to the stated functions of the enterprise. However, since some functions are more difficult to perform than others, the study argues that, in that case, classification might be remotely related to performance.

On organizational types, the literature argues that no organizational type can be directly linked to performance. Therefore, the organizational type is only closely related to a country's economic, social and political situation. Nonetheless, the literature portrayed the public corporation as the most highly regarded organizational type in both the developed and developing countries alike.

Finally, the literature directly linked performance to the nature of objectives, the excessive control, the Boards of Management, staffing, and the issue of competition. One, the multiplicity, vagueness and combination of both commercial and social objectives are a cause of poor enterprise performance. Good performance calls for a prioritization and clarity of objectives, and immediate compensation for any social objective performed.
Two, public enterprises are under excessive control from various external agents, which, rather than improve, erode the enterprises' autonomy. However, since control is inevitable, it is prudent that a balance be sought between control and autonomy. The case being that, public enterprises need to attend to the management of their internal affairs and to devote less time reacting to the external control agents.

Three, public enterprise Boards of Management tend to be politically appointed and clogged with people with little or no previous business exposure. Hence, rather than being Functional, they are Representative Boards - representative of the interests of political groups or individual political patrons. Therefore, instead of concentrating on the welfare of the enterprises, they tend to pursue other agenda. Moreover, managers heading the enterprises also tend to be politically appointed, and their "easy come, easy go" posts lure them to financially mismanage the enterprises. In particular, they tend to recruit on patronage lines. Overstaffing, which is also exacerbated by the Government's social policy on employment, results in excessive monthly wage bills. In both the Board and staffing, ethnic affiliations and poor performance are directly related.

Finally, according to the literature, the monopolistic nature of public enterprises tends to result in laxity, low creativity, poor products/services and finally, inefficiency. To counteract this, public enterprises should liberalise by allowing competition from the private sector.
Public enterprises seem to be renowned loss makers, and the costs of continuing to operate them outweighs the benefits. In line with the structural adjustment programmes, Governments should divest themselves of all public enterprises, profit ones included. This way, Governments will have the flexibility to put resources to more productive cases and to save the economy the burden of supporting nonviable public enterprises.

6.2.2 From Kenya Meat Commission

K.M.C. was established in 1950 under the Kenya Meat Commission Act, Cap 363. It was organised as a Public Corporation with 100% share capital provided by the Government. Established as a commercial and social organization, it has a legal monopoly to engage in domestic and foreign trade in meat and meat related by-products. It also acts as the buyer of last resort during drought periods and as a price stabilizing agency in the livestock and meat industry sector.

With inception, the Commission competed successfully in both the local and export meat markets. However, with better export prices in the late 1960s and early 1970s, the Commission made a fatal miscalculation and allowed sufficient private operators to infiltrate the local market. It also undertook expansion programmes in readiness of the "enlarged" market. But this was short-lived. By 1976, the export prices fell drastically, and with the domestic market already taken over by private operators, the
Commission's malaise started, only to continue unabated until October 1987 when it was declared technically insolvent.

The Commission's market structure had been changed, and therefore, with a kill capacity over and above the major private abattoirs, but with inadequate slaughter stock and the recommended international hygiene standards to maintain, the Commission ended up generating losses.

The Commission was unable to deal with the external control agents. As a public enterprise, its overall power rested with the Ministry of Livestock Development via the Board of Commissioners, which rather than being functional was representative - mainly of the interests of producers and political patrons. The Board was therefore untenable and arguably contributed to the Commission's eventual demise.

It was further noted that, the Commission was overstaffed and manned by people who had acquired the posts through patronage. Moreover, by adopting the Civil Service regulations and procedures, the Commission was unable to attract qualified personnel and to retain the few it had.

The stiff competition from the private sector finally led to the collapse of the Commission. Lacking capital and with unfavourable procurement procedures and incomprehensive marketing strategies, the private abattoirs entrenched their foothold and competed successfully to drive the Commission out of its last stranglehold of the local market.
With the end of Government subsidy in 1985, the Commission was finally closed down in October 1987.

6.3 Synthesis

The general literature on public enterprises and our own findings concurred in several areas and slightly differed in several others.

One, the literature indicated that the profit motive, though not always at the forefront, has quite often dictated the establishment of public enterprises. The Commission, a Public Corporation, was established to generate profit for the Exchequer and economic development in general. Thus, it was to generate local capital from its domestic market and foreign exchange from its export market. In addition, from livestock purchases, it was to enhance the economic well-being of the livestock producers.

Two, public enterprises were seen to have a multiplicity of objectives which were often a combination of both commercial and social goals. The important point here is that, the objectives often tend to contradict each other to the detriment of good performance. K.M.C., which is both a commercial and a social organization, is a good illustration of this general phenomenon.

Three, excessive control from the external agents, sometimes acting through Management Boards, diminishes the enterprises' autonomy thereby rendering the enterprises inefficient. This general phenomenon is also true of the Commission, which was
helpless in the face of controls effected by the Ministry of Livestock Development and the Board of Commissioners.

Four, the infiltration of politics into the management of public enterprises has made most of them incredibly difficult to manage from a professional point of view. K.M.C. survived on Government subsidy from 1977 up to 1985, primarily due to poor management.

Finally, due to managerial inadequacies found in public enterprises all over the world, the issue of divestiture is now occupying centre stage in discussions about public enterprises. It is in this context that one should interpret recent statements to re-organise K.M.C. and turn it into a producer cooperative.

Though liberalisation of public enterprises is often advocated as enhancing performance, this might not always be the case. The study has shown that, under certain circumstances, liberalisation of the market might lead to the collapse of the public enterprise rather than enhance efficiency. In order for a public enterprise to take advantage of market liberalisation, other areas must also be liberalised, e.g. decision making, controls and recruitment policies.

6.4 State of Hypotheses

The study had one general hypothesis: That the better the management functions are performed the better the enterprise performance. The study therefore identified six management
functions, viz, planning, directing, coordination, control, staffing, and the management of the external environment. In our analysis of the Commission, it was found that poor performance in each of these management functions contributed greatly to the Commission's inefficiency. The hypothesis was therefore confirmed.

In addition, the study had three specific hypotheses. The first one was: The more functional the Board of management the better the performance. The study found that the Commission's Board of Commissioners was a representative Board. As is the case, such Boards would be expected to represent "other interests" in addition to, or sometimes in place of, managerial professional interests. As would be expected, these other interests are often very difficult to nail down empirically, though we can deduce them. This was the case with K.M.C. This hypothesis was therefore "softly" confirmed.

Decision making at the Commission was highly centralised, with the major decisions, i.e., on investments, being made by the external agents such as the Treasury, Ministry of Livestock Development, and to a lesser extent, the Board of Commissioners. As such, not only were the employees not involved in decision making, but also the management was excluded from decision making. The end result was laxity and poor performance. Our second hypothesis that: The higher the participation of workers in decision making the better the performance, was therefore confirmed.
Our third hypothesis was: The more an enterprise is subjected to competition the more responsive the management becomes and hence the better the performance. In theory, competition is supposed to enhance performance. In the case of K.M.C., competition did not enhance performance because it was not accompanied by internal and external reforms which were necessary in order to make K.M.C. compete on an equal basis. This hypothesis was therefore not confirmed.

Finally, the study has come to the conclusion that the second hypothesis, though confirmed, was not a good hypothesis, in that, it was restricted to a very narrow issue of personnel, namely, decision making. The hypothesis, therefore, ought to have been broader to accommodate most issues related to personnel. Perhaps a better hypothesis should have been: The better the personnel issues are handled, the higher the staff motivation and hence the better the performance. This way, it would have included staffing, remuneration, decision making, training, housing, etc, thereby making it more appropriate to the study.

6.5 Policy Recommendations

6.5.1 On Public Enterprises in Kenya

This study suggests the following policy recommendations in respect of public enterprises in Kenya:

i) That public enterprises should be given the clearest possible
objectives and where called upon to perform inherently unprofitable functions, the enterprises should be compensated for proper accounting.

ii) That in order to boost their morale, public enterprise employees should be rewarded by means of yearly bonus payments based on profit made, or good performance during the year. So as to act as an incentive, commercial-oriented enterprises should only pay bonus if they make profit. However, for the non-profit making enterprises, other measures of good performance should be devised and used.

iii) On political appointments, the study recommends that the post of Chairman can remain a political post since he will only be required to chair Board Meetings. However, the post of Executive Chairman and the General Manager/Managing Director, both highly politicised posts, should be advertised and interviews carried out to identify the best people for the roles. Otherwise, the posts should be advertised through a Consultancy Firm which would carry out interviews and short-list the number of candidates to three. The names of the candidates would then be forwarded to the Board (a functional Board) to pick the "best" person.

iv) That public enterprises be accorded greater autonomy in their operations. However, since it is inevitable that the Government should retain some measure of control, this should be introduced and exercised with caution, and not at the expense of the enterprises' efficiency.
v) That the Government should stop using public enterprises as a remedy to any development problem. This way, it will use them when and where most applicable, and thus, it will be able to keep the number of its public enterprises in check.

vi) That efforts at rejuvenating loss making enterprises should cease and instead either liquidate or privatise them. However, the Government should not divest itself of profit making enterprises. Instead, it should liberalise them, but with care, and also come up with a clear policy on their management.

6.5.2 On Kenya Meat Commission

On the Kenya Meat Commission, the study makes the following policy recommendations:

i) That K.M.C should be operated as a commercial oriented undertaking under a functional Board of Commissioners.

ii) That the Commission should come up with the best possible method of procurement which is less prone to abuse. Moreover, this method should also be attractive to producers.

iii) That K.M.C should cease to be a price taker of livestock purchases and meat products, prices which should thereby be dictated by market forces. However, should the Commission continue to safeguard the interests of livestock producers and beef consumers, it should do so only as a watchdog and not as a loosing competitor against the private abattoirs in

290
livestock and beef market.

iv) That the Commission should adopt vigorous marketing strategies and avail credit facilities to retailers, as is the case with private abattoirs, so as to increase its domestic market.

v) That since previous efforts at rejuvenating the Commission seems to have failed, the government should divest itself of the Commission and save the economy the problem of supporting a nonviable enterprise.

6.6 Future Research

Public enterprises in Kenya, and elsewhere in the world, have attracted the attention of all concerned: politicians, the press, academicians, donor agencies, and the public in general. This is largely because of the colossal amount of the tax payers money that goes to waste in these enterprises, and yet they still continue requesting for more from Government coffers.

Public enterprises have therefore been grossly mismanaged, with the mismanagement being widely attributed to poor feasibility studies, Boards of Management, unclear objectives, excessive control, low capitalization, poor managers, overstaffing, corruption, etc. However, a clear and thorough identification of what is amiss in our enterprises has escaped many observers.

This study cannot claim to have covered all that can be studied about the management of public enterprises in Kenya. Certainly, it has not covered everything there is on the management
of Kenya Meat Commission. The main reason is that, we had to limit the scope and area of our study and focus due to constraint of time and financial resources. This is for example the reason why the study did not interview those employees who were laid off by the Commission when it was closed in October 1987 despite the fact that these could have acted as an important control group to our findings.

Finally, the fact that the Government has at last given the intention to divest itself of all its non-strategic enterprises, is a clear indication that it has finally come to grips with what is remiss with the management of public enterprises. The portending divestiture has further opened another area of research to students of public enterprises: The Politics and the Results of Divestiture in Kenya.

6.7 Overall Conclusion

The structural adjustment programmes, with their emphasis that Governments should divest themselves of all public enterprises, has put the future of public enterprises, at least in the developing countries, at stake. In the meantime, the question of the future of public enterprises is open to debate.

However, in the absence of a widespread indigenous capital and a political system prone to patronage, public enterprises remain a central economic feature of the developing countries.
This being the case, it might be impossible, at least in the foreseeable future, to do away with public enterprises entirely.

Nevertheless, it is hoped that these countries are going to divest themselves of the less visible enterprises and restructure the "key" enterprises which they cannot sell. It is further hoped that they will, in effect, inject better management and loosen the controls for greater autonomy of the enterprises.

Therefore, one can finally expect the restructured public enterprises to have clear and complementary objectives, an absence of political appointments, freedom in decision making, sound recruitment policies, and consequently, a management committed to the principal management functions. Thus done, the poor performance of public enterprises will be an isolated case, or in entirety, a thing of the past.
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JOURNALS


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THESES AND DESERTATION


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5. _____________, Product Catalogue
6. _____________, Board Minutes, 1983-1985
7. _____________, Board Papers, 1984

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1. Daily Nation.
2. Finance Magazine.
4. The Standard.
5. Weekly Review.
### APPENDIX I

**SEQUENCE, CLASSIFICATION AND NATURE OF MAJOR PUBLIC ENTERPRISES IN KENYA**

<table>
<thead>
<tr>
<th>PUBLIC ENTERPRISE</th>
<th>YEAR OF INCARNATION OR ESTABLISHMENT</th>
<th>FORM OF CLASSIFICATION</th>
<th>MONOPOLY OR COMPETITOR</th>
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<tbody>
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<td>* Uplands Bacon Factory</td>
<td>1946</td>
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<td>Nyayo Motor Corporation</td>
<td>1991</td>
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KEY

* Not in Operation/Closed
+ In Receivership
- Liquidated
APPENDIX II
PUBLIC ENTERPRISE CATEGORIES AND THEIR SALARY SCALES

CATEGORY A: Salary Scale: 1-7-87: K£11,346x360-12,066x420-
13,326x480-14,286 p.a.

Kenya Commercial Bank (Cap. 488).
National Bank of Kenya (Cap. 488).

CATEGORY B: Salary Scale: 1-7-87: K£10,302x324-10,626x360-
12,066x420-12,906 p.a.

Industrial and Commercial Development Corporation
(Cap. 517).
Agricultural Finance Corporation (Cap. 323).
Kenya Re-Insurance Corporation (Cap. 485).
Kenya National Assurance Company (Cap. 486).
Industrial Development Bank (Cap. 486).

CATEGORY C: Salary Scale: 1-7-87: K£9,006x324-10,626x360-
11,346 p.a.

Kenya Power and Lighting Company Limited (Cap.
486).
Kenya Posts and Telecommunications (Act No. 24 of
1977).
Agricultural Development Corporation (Cap. 346).
Kenya Airways Limited (Cap. 486).
Kenya Tea Development Authority (Cap. 318).
National Housing Corporation (Cap. 117).
Mumias Sugar Company Limited (Cap. 486).
Kenya Ports Authority (Act No. 2 of 1978).

CATEGORY D: Salary Scale: 1-7-87: K£7,854x288-9,006x324-9,978
p.a

Tana and Athi Rivers Development Authority (Cap.
393).
Kerio Valley Development Authority (Act No. 14 of
1979).
Lake Basin Development Authority (Act No. 24 of
1979).
National Irrigation Board (Cap. 347).
Kenya Industrial Estates Limited (Cap. 486).
Kenya National Trading Corporation (Cap. 320).
National Cereals and Produce Board (Cap. 486).
Kenya Planters Co-operative Union (Cap. 486 & 490).

Kenya Co-operative Creameries (Cap. 486 & 490).
Kenya Grain Growers Co-operative Union (Cap. 486 &
490).
E.A. Portland Cement Limited (Cap. 486).
Chemelil Sugar Company Limited (Cap. 486).
Pyrethrum Board of Kenya (Cap. 340).
Kenya Tourist Development Corporation (Cap. 382).
Kenya Pipeline Company Limited (Cap. 486).
National Oil Corporation of Kenya (Cap. 486).

**CATEGORY E:**

Salary Scale: 1-7-87: K£6,594x252-7,854x288-8,713 p.a

National Construction Corporation (Cap. 493).
Cotton Lint & Seed Marketing Board (Cap. 335).
Kenya Post Office Savings Bank (Cap. 501).
Coffee Board of Kenya (Cap. 333).
Kenya Film Corporation (Cap. 486).
Milling Corporation of Kenya (Cap. 486).
Kenya Cashewnuts Limited (Cap. 486).
Nzoia Sugar Company Limited (Cap. 486).
South Nyanza Sugar Company Limited (Cap. 486).
African Tours and Hotels Limited (Cap. 486).
East African Sugar Industries Limited (Cap. 486).
Kenya Bureau of Standards (Cap. 496).

**CATEGORY F:**

All the Regulatory, Consultative, Advisory, Educational, Professional and other Miscellaneous Institutions.

**Source:** Office of the President, Nairobi Circular No. 1/87 dated July 12, 1987.

*Kenya Meat Commission was upgraded to Category C when it was reopened in October, 1989.

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**N.B.** The salary scales specified above are only for the Chief Executives. For the non-unionisable employees, public enterprises are expected to submit their individual recommendations to the Inspectorate of Statutory Board, Office of the President, via their Ministries for consideration and subsequent decision by the Government.
## APPENDIX III

### KMC STAFF SALARY SCALES

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<td>Scale 11</td>
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<td>Scale 12</td>
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<td>Scale 13</td>
<td>449 - 636</td>
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<td>1,170 - 1,734</td>
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<td>Scale 14</td>
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<td>972 - 1,446</td>
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<td>Scale 15</td>
<td>449 - 636</td>
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<td>744 - 1,170</td>
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Source: KMC Personnel Department, April, 1990
The old scales were in force from 1980 up to 30.9.89
The new scales were effected from 1.10.89
Management scales are scales 1 to 9
Scales 13, 14 and 15 in the old scale are similar. These were
called Operative Scales and there were more than 30 posts
pegged to these scales. However, they carried different
salaries depending on job contents. Hence one could be in
Scale 13 and another in Scale 15 depending on the risks,
hazards, dexterity, etc. attributed to the role performed.