LAD CASE STUDY

The Kenya Tea Development Authority (KTDA)

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Introduction

With a population of 12.5 million in 1973, Kenya is one of the largest countries in sub-Saharan Africa. Situated in East Africa, Kenya stretches from the Great Rift Valley and Lake Victoria in the west to the Indian Ocean in the southeast. In 1963, the country gained independence from the United Kingdom, which had had a significant colonial presence in East Africa. Since independence, the powerful President Jomo Kenyatta has been the heart of Kenya's body politic, while agriculture continues—as it did during the colonial era—to account for a significant portion of the country's economic output. Within the agricultural sector, tea cultivation and manufacture plays a particularly important role.

The Kenya Tea Development Authority (KTDA) oversees smallholder[i] tea production in post-colonial Kenya. Today, a decade after independence, the KTDA is managed by a man named Charles Karanja. A smart, driven public servant, Karanja has worked hard to increase the profitability of smallholder tea cultivation while improving the quality of the tea that KTDA growers produce. After nearly ten years at the KTDA and three years as the Authority's general manager, Karanja can claim to have succeeded on both counts. Smallholder tea production is up and quality has improved, leading to increased grower profits.

However, the ambitious Karanja still believes that there is room for the Authority to grow. At present, the KTDA limits itself to overseeing the cultivation and harvest of tea but contracts out the manufacturing of smallholder tea to multinational tea firms operating in Kenya. Karanja has come to believe that the KTDA should take over the manufacturing function from the multinational firms. By pursuing this type of vertical integration, Karanja reasons, he can

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Michael Goldfien prepared this case under the supervision of Francis Fukuyama of Stanford University. The case is adapted from David K. Leonard's book African Successes: Four Public Managers of Kenyan Rural Development (University of California Press: 1991), *and uses his language and ideas extensively. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management*

increase Kenyan control over the tea industry and find more managerial opportunities for Africans in the tea factories.

Despite Karanja's reputation for good management and efficiency, not everyone believes that greater vertical integration is the right choice for the KTDA. International donors like the Commonwealth Development Corporation (CDC) and the World Bank are dubious that the KTDA has the capacity to handle the technically challenging task of manufacturing tea, a view shared by senior officials at the Kenyan Ministry of Agriculture. Not surprisingly, the multinational tea firms have also expressed concern about Karanja's interest in expanding the KTDA's role.

Karanja has enjoyed a successful career at the Authority and has overseen a number of successful reforms. However, his past reforms, like altering standard work hours to improve efficiency, have been at the margins of the KTDA's institutional structure. His plan to expand into factory management, by contrast, would constitute a major change for the KTDA that could have a significant impact on the future of the institution. Karanja has yet to make any official proposals, leaving him two options. First, he could formally present his plan for the KTDA to manufacture its own tea to higher-ups in the government. If accepted and carried out successfully, it would accelerate the process of Africanization in Kenya. Second, Karanja could shelve the plan in the face of opposition from international donors and others and focus on consolidating the KTDA's considerable gains in the post-colonial period.

Background: The KTDA

The British introduced tea to Kenya in the early 1900s, with commercial planting beginning in the 1930s. However, smallholder tea production has a relatively short history in the country. Smallholder tea production was first introduced in two small areas of Kenya by the colonial Department of Agriculture in the early 1950s. It was a subsidized experiment, an aspect of the general attempt to put down African rebellion through economic incorporation. As part of the experiment, the Department ran one factory while multinational tea firms undertook the management of the other factories used. Thus, rather than handle the entire process, the

Department of Agriculture confined itself to the problems of getting the tea planted, providing extension[ii] to maintain its quality, and transporting it to the factories. These functions all have economies of scale that make them efficient on large estates but inefficient for smallholdings to provide for themselves. By "collectivizing" these functions for smallholders, the department was making their scale economic and competitive. No one was sanguine about the success of the experiment; tea is a technically demanding crop, and attempts at smallholder tea production in other countries had failed. In fact, World Bank officials declined their first opportunity to be involved in the early 1960s, convinced the endeavor would fail.

Out of this pilot project came the Special Crops Development Authority, which was established in 1960 and was renamed the KTDA in 1964. While the pilot had been heavily subsidized, the KTDA and its growers were expected to pay most of their own way. Every aspect of production was to be financed out of the growers' sales, including agricultural extension. The one exception was the necessary development of feeder roads, which the government agreed to undertake. Tea was spared the taxes that coffee growers had to pay in return for their extension and road services. True, most crops pay no direct taxes, but on balance tea probably fared well, particularly given the fact that it produced high incomes for relatively well-to-do peasants and small farmers. This exchange of more comprehensive responsibility in return for no taxes also added to the KTDA's autonomy by making it self-sufficient in most of the resources it required.

The organizational approach adopted by the KTDA was typical of the late colonial period, stressing control as it sought to incorporate African peasants into the market and make them middle-class. Farmers had to commit themselves to planting a minimum of one acre of tea. Since the average farm size in the areas where it was being promoted ranged from two to three acres, and since tea produces no income for the first three years after it is planted, this requirement inclined the program toward the more advantaged who had more land or other sources of income. Despite the fact that the late colonial policy of explicitly promoting a division of the rural area between the entrepreneurial landowning class and the landless laboring

Ethnicity and Politics in Kenya

One of most salient features of Kenyan politics is the role of ethnicity. Kenya is home to variety of ethnic groups, which often speak different languages and are generally divided within Kenyan society. In fact, though tensions between Kenya's ethnic groups predated the colonial period, the British often sought to amplify ethnic divisions in order to keep the various ethnic groups from uniting to challenge the Crown's rule.

Since independence, President Jomo Kenyatta has maintained his power, in part, by implementing policies that reward Kikuyus, Kenya's largest ethnic group, as well as related groups (Meru and Embu) and allies. Ethnic politics in Kenya has led to the development of a political system in which patronage networks are central. The ability to influence Kenyan politics, or to benefit from government policies and programs, is often related to one's ethnicity.

Ethnic Group	Percentage of Population	
Kikuyu	20.1	
Meru	5.1	26.3
Embu	1.1	
Luo	13.9	
Luhya	13.3	
Kamba	10.9	
Kipsigis	4.3	
Nandi	2.4	10.9
Other Kalenjin	4.2	
Other African	20.7	
Asians	1.3	
Europeans	0.4	
Others	0.8	
Total	100.0	

Source: David Leonard, *African Successes*

one was not adopted in independent Kenya, the idea of a one-acre minimum remained an official KTDA goal. The organization maintained that plantings below this minimum would not be worth the farmer's time and care, and would fail. The benefits to the advantaged that the original policy entailed were congenial to the *matajiri*[iii] leadership, but the implication that the smallest producers would become landless by being denied access to the most profitable crops was politically troublesome. Thus the one-acre ideal was encouraged, with some advantage to the better-off producers, but the controls necessary to assure its achievements were not subsequently enforced.

Many have attributed the success of smallholder tea cultivation in Kenya to the profit incentives built into the KTDA system. However, the KTDA's organizational design actually reflects the lack of faith that colonial officers had in the workings of the market. They feared that the many services that are necessary for successful commercial tea production would not come together simply through market pressure. Thus they created a single, vertically integrated organization to provide all the planting materials, extension, transport, processing, and marketing. They also believed that African peasants were not sufficiently responsive to the market to make "economically rational" decisions and that they needed to be controlled by the state if development was to be achieved. The KTDA therefore was constructed with monopoly and monopsony power and multiple controls over grower behavior. Farmers could only obtain the stumps needed for planting from the KTDA. Fertilizer was provided in kind to make sure that farmers used it, and its cost was deducted from the proceeds of the tea sales. Picked leaf could be sold only to the KTDA, and considerable efforts were made to prevent the development of sun-dried (i.e. homemade) tea so that growers would be forced to work through the KTDA in order to bring their product to market. Extension agents were required to inspect and grade as well as advise the growers, so as to make sure that they were keeping up to the required quality standards, and lower-quality tea could be refused (instead of being paid a lower price). The internal structure of the KTDA was similarly tightly organized and disciplined.

These controls were balanced, however, by something that was not typical of colonialism and instead reflected the period of transition to independence—elected grower representation. The pilot project undertaken in the early 1950s did not have grower participation. But when the Special Crops Development Authority (KTDA's predecessor) was formed in 1960, most government subsidies were dropped. In the highly charged political atmosphere of imminent independence, the growers responded by forming the Central Province Tea Growers Association. By creating elected tea committees at the local level the SCDA/KTDA was able to bring this protest within the organization, where it could be controlled. Until 1966, the growers' representatives on the national board were appointed by the minister of agriculture, after which they were elected by the provincial tea boards. The minister, however, retained the right to appoint the other members and thus control the board. Even though grower representation was forced upon the KTDA by the spirit of the times and was then controlled and co-opted, it helped protect the organization against external political encroachment and was instrumental to its success. The board's limited independence was reinforced by the fact that its concerns resonated with many individual cabinet members and M.P.s, causing the KTDA and the government to be sensitive to its views once it was in existence.

The smallholder coffee industry, which was also established in the 1950s, also controlled participation, both through the Coffee Board and the cooperative movement. The board was established in the colonial era to represent the interests of white growers. Smallholders now join with estate owners to elect some board members, with the government selecting others. There also is government supervision of the elected cooperative societies. The oversight is sufficiently tight that Kenyan farmers see no difference in the degree of say that they have in the coffee and tea industries, even though the cooperatives nominally give coffee growers more power than their representatives do on the KTDA board. Still, institutions supporting smallholder agriculture initiated before and after this period generally have not provided for any meaningful participation. Both the colonial and postcolonial states accepted grower democracy only when it was forced upon them.

Leaf collection was one of the two foci of the KTDA's day-to-day operation as it was constituted in 1964-5. The Authority grew tea stumps from seed in its nurseries and sold them to the growers. The extension staff then supervised the care and picking of the tea. (KTDA insisted that its growers provide the highest quality tea by following the labor-intensive practice of always picking a bud and two leaves together. Some economists have recently questioned whether this practice maximizes profits, but the Authority took a nationalist pride in the international recognition of its product.) All of this was the preserve of a senior agriculturalist who headed what was called the Technical Division.

The grower then had to carry his tea to a buying center, where it was inspected, weighed, and recorded. From there it was picked up and transported to factories for manufacturing. At this time, tea processing and marketing was handled for the KTDA by the multinational tea companies. The leaf-collection-and-delivery stage was administratively demanding for several reasons: (1) Tea had to be processed within twenty-four hours of picking to be of high quality, and it could easily be damaged in transporting. (2) All of the KTDA's financial transactions with growers revolved around the collection stage in the operations. (3) A large fleet of trucks had to be kept running and on schedule, travelling on unpaved rural roads in rainy conditions. (4) A large non-professional work force had to keep to tight time schedules under dispersed conditions where supervision was difficult. All of this came under Karanja's jurisdiction.

Karanja's Career at the KTDA

Charles Karanja, a Kikuyu from the Central Province, joined the KTDA in 1964 as the Authority's executive assistant. He was put in charge of transport, housing, staff recruitment, and the like, all areas in which he had gained strong experience in Kiambu and Embu as works officer. Excelling in this capacity, Karanja rose through the organization and became the executive officer in 1965. In this new role his responsibilities expanded to include the administration of leaf collection.

Karanja became convinced that he could lower expenditures on leaf-collection, which represented most of the Authority's variable costs. Though asked to fix the KTDA's transportation problems, Karanja tried to make improvements in other areas of the Authority's operations as well. His first suggestion concerned the method of transporting the plucked tea. The KTDA used steel-wire baskets to provide air circulation around the tea and keep it from being damaged by overheating. These cost K.shs. 45 each and lasted only thirteen months. Karanja proposed the use of soft, sisal gunnysacks instead and had a new truck body designed so that they could be hung rather than stacked. The idea was to increase air circulation around the tea. Moreover, the sisal bags had a life of over two years and cost only K.Shs. 8 each, as sisal is locally grown.

His second proposed innovation was to reduce the KTDA staffing at the buying centers from two to one and on the trucks from three to two by combining tasks. Third, he suggested altering the standard work hours of the leaf-collection and trucking staff so as to significantly reduce overtime. Needless to say, the staff resisted these two innovations for they increased the work and reduced the take-home pay.

Fourth, he developed a formula for determining whether a leaf-collection (buying) center was handling an adequate volume and proposed that the underutilized centers be grouped into twos or threes, with a single leaf-collection officer rotating days between them. The same formula was used to determine when it would be appropriate to set up a new buying center. This innovation was not popular with the growers, who wanted collection centers close to their homes and open every day to reduce their walking distances. Since the costs of having too many centers were born collectively, and the inconvenience of going farther was born individually, the voices of growers who wanted more centers open more days were always louder.

The KTDA board voiced skepticism about these and other proposals when Karanja presented his paper arguing for them. Several of his ideas represented breaks with standard industry practice. He was new to tea, and some of the board members themselves owned estates so would be directly affected. A long period of careful examination and trial testing of the innovations ensued. Karanja's argument was clinched in 1968, however, when the board hired an English consulting firm to study the same problems and it endorsed his proposals.

These changes were simply refinements in the basic methods of operation that the KTDA had already established. Nonetheless, they did enable it to improve the efficiency of its operations and lower costs. These savings were passed on to the growers in the form of improved prices, incentives that account for the KTDA's longevity and success.

A ruthless commitment to efficiency characterizes Karanja's entire career. Its results are reflected in a steady drop in the KTDA's operating costs. The study that he carried out on leaf collection could be called operations research, part of the curriculum for engineering degrees. Karanja had no such formal training because he never completed his studies in Canada but he was nonetheless exposed to some of the principles that underlie operations research in his diploma program in Kampala, and his early job experiences reinforced those lessons. Engineering involves attention to detail and an approach to problem solving that is both systematic and based on particular circumstances. The efficient use of resources is a central preoccupations. Karanja's approach to his managerial work in the KTDA thus was influenced by his professional background.

In addition to his engineer's instincts, Karanja maintained politically committed to the interests of growers. He believed that it was important that they benefit from independence, and he was troubled that even the least-paid wage earners at the Authority were making more than the tea smallholders. His sensitivity to the prices that producers received was subsequently strengthened when he began tea farming himself in upper Kiambu. Similarly, past experiences as a businessman reinforced his impulse for cost cutting.

Initially, Karanja's path to the general managership was blocked, and he was trapped in leaf collection. Shortly after he joined the KTDA, the Authority hired F.I.H. Moreithi, a Kikuyu economist from Nyeri, as its assistant general manager designate. Moreithi was made general manager in September 1968, and Karanja was named assistant general manager. They were very different men, and their relationship became stormy. Moreithi was a policy analyst, quiet, polite, and politically naïve; Karanja was an administrator, talkative, aggressive, ambitious, and politically shrewd.

The board decided to plant three acres of tea for President Kenyatta in order to involve him in the affairs of the Authority. Kenyata later expanded it to six acres and then to eighteen, but he made no payment for the stumps. So Moreithi raised the matter with Mbiyu Koinange, the minister of state in the Office of the President. When he asked that the president reimburse the authority for the stumps he was rebuffed. Subsequently, Kenyatta informed Karanja that he had decided to deliver his tea direct to the factory without going through the Authority's leaf collectors. This meant that the KTDA would not be able to deduct its service charges from the payments he received for the tea. If this practice became widespread, it would jeopardize the KTDA. Karanja sought and received Kenyatta's assurances that no one else would be extended this privilege. But

Moreithi was deeply concerned with the precedent and objected informally through government channels. Again, the Office of the President dismissed his complaint. Meanwhile, the chair of the board, Jackson Kamau, sought to involve himself in the details of the KTDA's operations to a greater extent than had been traditional for those occupying that position in Kenyan agricultural authorities. This was symbolized by his desire for an office in the headquarters (which he never did get). Moreithi thus was under a good deal of pressure from Kamau and felt blocked on many decisions.

In the midst of this, Karanja grew upset with the work of his planning officer and wanted him dismissed, which Moreithi refused to do. Rumors circulated that Karanja wanted Moreithi's job, and the relations between the two men deteriorated still further. In May 1970, Karanja submitted his resignation, stating that he did not want to threaten Moreithi and reasoning that he could do better for himself in business. Higher government officials intervened. Philip Ndegwa, then permanent secretary to the Ministry of Agriculture, asked Karanja to withdraw his resignation and told him to report directly to the chairman of the KTDA, not the general manager. In Kenya one does not decline the presumed wishes of the president, even if Karanja had been inclined to do so.

Moreithi interpreted Karanja's resignation as a ploy, not a genuine offer. In any case, it had seriously compromised his authority. Moreithi submitted his own resignation and it was accepted. In addition to having a tense relationship with Kamau and offending the Office of the President, he had a conflict with Mwai Kibaki, the senior cabinet minister from his home district of Nyeri. By contrast, Karanja had built impeccable political connections with the Kiambu political elite and the group around Kenyatta. He and board chairman Kamau also lived on neighboring large farms and were considering going into business together.

It should be noted, however, that Karanja and Moreithi were able to cooperate in at least one area: Africanization of the factory managers. The two had arranged for the placement of African KTDA management trainees in the existing factories beginning in 1968. However, they were ultimately disappointed by the multinational firms seeming reluctance to put them in full charge of the factories.

Karanja Becomes General Manager

Karanja became general manager in October 1970, and Moreithi left Kenya to work for the Food and Agricultural Organization and subsequently the World Bank. Some of Moreithi's supporters have since become convinced that he lacked the toughness and political skill necessary to lead the KTDA and that the organization was actually better off under Karanja. Moreithi himself later concluded that Kamau and Karanja were so politically connected themselves that they were better able than he to insulate the KTDA from political interference.

Upon becoming general manager, Karanja quickly moved to persuade the board to dismiss the planning officer who had opposed him. He also made it clear that he would deal similarly with any others who failed to carry out his legitimate instructions. This 'purge' was an emblematic of how he treated personnel issues more generally. Throughout his career, Kranja has been quick to fire those whose performance has disappointed him. This has been as true of him in his own businesses as in the KTDA, and he has applied the principle as rigorously to his relatives and the politically connected as to those of other ethnic groups. However, his personnel policies were not completely meritocratic. A Board committee selected candidates for senior positions in the KTDA through an impartial open interview process but personal or political influence might help one make it to the interview stage. Karanja also exercised patronage power on occasion in the appointment of junior positions. He was adamant, however, that his favors went no further than a chance at the job; to keep it, one had to perform. He dropped those who did not meet his standards and encouraged his supervisors to do the same. He demoted a relative of the minister of agriculture from a senior position in the KTDA and fired two of his own sons from his business. Patronage has quite a different ring to it when those who receive it are subjected to ruthless performance standards, and all agree that this is precisely what Karanja did. Of course his standards did have an element of personal loyalty mixed in with a preponderance of objective merit. Some good people felt his ax, particularly in his early years as general manager, but on balance his appointment policies were conducive to good performance.

The other side of Karanja's willingness to fire poor performers is that he was good at career development. He always supported his staff against political interference. His expectations were always clear, and he followed up to see that the work was done properly. When he was satisfied he was quick to give public praise and pay raises. Able people rose rapidly under him. The KTDA had more internal staff promotions than did other government corporations. The organization developed an extremely strong esprit de corps among its senior staff who were loyal to Karanja.

Karanja enjoyed identifying good workers by setting up comparisons and stimulating competition. He adopted the policy of training more people for jobs than he had openings and then promoting from among the best performers. This could create some bitterness among those who fell by the wayside. In his early years as general manager he handled this problem by simply dismissing those whose dissatisfaction affected their work.

Karanja was well enough connected to defend the KTDA against political interference, and he was professional enough to believe passionately in doing so. The Authority was under constant pressure to expand its tea-growing areas, since its presence brought both increased agricultural incomes and dramatic improvements in rural roads. Such expansion would have increased the KTDA's operating costs and thereby reduced the incomes of its original producers. L.H. Brown, the then director of agriculture, had prepared a report just before Kenyan independence defining those areas that were appropriate for smallholder tea production. Karanja vigorously defended those boundaries and only lost once. Otherwise Karanja's easy access to President Kenyatta was sufficient to defend this colonially defined professional standard.

The dramatic increase in the area under smallholder tea and the emergence of the KTDA as a major force on the world market were not solely the result of Karanja's actions. By 1965, the World Bank had overcome its initial doubts about the Authority and joined with the Commonwealth Development Corporation as its principal financier. As the organization went from success to success the bank provided loans for still greater expansion. To meet the demand for tea plants that these exponential increases in acreage produced, the Authority had to introduce vegetative propagation from mother bushes, instead of growing the plants from seedlings. The new method permitted farmers to develop their own nurseries and thus cost the KTDA its monopoly over the supply of planting material. A fair amount of the organization's control over who planted tea and how much acreage they took on was lost as a result of granting farmers wider latitude to supply their own planting material. However, the Authority's performance and the quality of the tea didn't suffer, suggesting that the KTDA's monopoly over the supply of planting material hadn't been necessary in the first place. Although most of the other colonially inspired controls over growers have remained formally in place, the ideological zeal for their enforcement waned, save in the area of picking quality. The strong prices for tea and the commercialization of much of the Kenyan peasantry have made the KTDA and the growers partners in a mutually profitable enterprise and erased the conflict of objectives which the controls implied.

What did drive the expansion in smallholder tea were strong international prices for the beverage. The KTDA was responsible for seeing that the resulting increases in profits were passed through to the growers. Three policies in which Karanja had a hand contributed to this outcome. First, the Authority was commendable about cutting its own costs and therefore passing on an increased percentage of the profits to the grower. In the same vein the Authority returned to the World Bank nearly half of the money that it had been lent for its Second Plan period. A senior Treasury official criticized Karanja for having failed to use the money since the interest rates were subsidized. Karanja's attitude, however, was that it was still a loan; if the money went toward unnecessary expenses, it would still have to be repaid out of smallholder profits later on.

Second, the Authority decided to pass world price fluctuations directly on to the growers and not try to buffer them with a price stabilization fund. This decision doubtless increased grower profits, for experience elsewhere in Africa suggests that such funds all too often get used for other purposes and are then unavailable when needed. The attendant risk to growers was mitigated by dividing the payments for the tea into a guaranteed first payment, which was distributed monthly, and a variable second one at the end of the year.

Under Karanja, the KTDA even more directly linked world prices and producer profits than they had been originally. Quality of tea varies by the area of growth and the processing factory, which results in different prices on the world market. Initially these revenues had been pooled and paid out to growers as if the quality of their product were uniform. However, tea from east of the Rift Valley, that is, tea grown by the Kikuyu, Meru, and Embu, commanded consistently higher prices. Karanja proposed that two pools be created instead, east and west of the Rift Valley. Board members from the west vigorously opposed the suggestion fearing it would lower the income of their growers. The proposal finally carried when Mr. B. Amache, the deputy chairman and a Luhya from the west, became convinced of the justice of such a new arrangement, leaving the Kalenjin members to stand against it alone. Later Karanja persuaded the board to break the payment pools down to the factory level in order to increase the incentive effect still further. Third, the KTDA fought hard to defend its growers from taxes on its produce, such as those paid by coffee producers. The Authority's vigorous efforts in this regard kept still further taxes at bay.

The substantial involvement of the World Bank and the Commonwealth Development Corporation buttressed these commitments to economic and market forces. Threatened changes in government policy could be resisted by saying that they would upset the donors. Donor influence, however, was not an absolute; to have an effect it had to be used by a local institution that shared its objectives.

The KTDA Looks to Expand

By nearly any measure, the KTDA has so far exceeded expectations in its brief existence. Originally designed as a gambit to quell African unrest in colonial Kenya, the KTDA has managed to increase smallholder tea production while improving quality. In 1959, Kenyan teas commanded 14 percent below the average London price; by 1971 they brought the world's highest prices, at 6 percent above the average. Much of the KTDA's success can be attributed to Charles Karanja's leadership and managerial skill.

During his tenure at the KTDA, Karanja has demonstrated an unwavering commitment to protecting the interests of his growers and of Kenyans more generally. For this reason, after three years as general manager, he is considering expanding the KTDA's role to factory management. Since its inception, the KTDA had been involved almost exclusively in agricultural extension and the collection of green tea leaf. Several multinational tea firms handle manufacturing and international marketing of the tea. By having the KTDA manufacture its own tea, Karanja hopes to expand Kenyan control of the industry and facilitate the placement of Africans as tea factory managers. The Kenyans on the KTDA's board of directors have come out in support of the KTDA's expansion into manufacturing.

Despite Karanja's desire to expedite the 'Africanization' of the Kenyan tea industry, there are risks associated with his plans to further vertically integrate the KTDA, and not everyone is on board. The multinationals that currently handle tea manufacturing are, not surprisingly, resistant to Karanja's idea, as it would mean a smaller role for their firms in the tea industry. Moreover, the Commonwealth Development Corporation and the World Bank, major financiers of the KTDA's growth, are skeptical of the plan. In their view, tea manufacturing is extremely demanding technically and hasty nationalization and Africanization could jeopardize the viability of the entire small-farmer tea initiative. At the Ministry of Agriculture, the influential Minister Jeremiah Nyagah and Permanent Secretary Joseph Kibe have indicated that they share the CDC's and the Bank's concerns. Manufacturing tea involves a complex process of withering, macerating, fermenting or oxidizing, and finally drying the leaf. Precision in these steps is important in ensuring the quality of the tea.

Karanja thus faces constraints on his decision-making with respect to expanding the KTDA's role. First, he must assess the KTDA's ability to manage the manufacturing process. If the KTDA proves incapable of running the factories efficiently, it could adversely impact the income and welfare of the growers that he has worked so hard to support. Second, even if Karanja is himself convinced that the KTDA is up to the task, it is not clear he will be able to get approval for his plan if the CDC, the World Bank, the Ministry of Agriculture, and the multinationals remain opposed.

The Choice

As the leader of the KTDA, Karanja must make difficult choices that balance his advocacy of grower interests with the political landscape in Kenya and the organization's credibility with its international backers. The KTDA has made tremendous strides since independence, in no small part due to support from within the government and among the international donor community. Karanja does not want to alienate politicians or donors upon whom the Authority relies for political and financial support.

Pursuing this policy of substantial vertical integration and expanding the KTDA into factory management is a high-risk, high-reward strategy. Ideally, Karanja's superiors would approve his plan for assuming manufacturing responsibilities, leading to the Africanization of the Kenyan tea industry without compromising grower profits or efficiency in tea production. However, if higher-ups reject Karanja's plan, it could undermine his leadership and potentially weaken the Authority's relationships with other government agencies and the international donor community.

Even if the plan is approved, however, the KTDA's readiness for this type of expansion remains a question mark. There is no guarantee that the Authority can match the technical capacity of the multinational firms that currently handle manufacturing for the KTDA. Africanization of tea factory management will be for naught if it is carried out prematurely and reverses the efficiency gains that have been made in the ten years since Kenyan independence.

Less risky would be for Karanja to table his plan for expanding the KTDA's role into tea manufacturing. Instead, in the near-term, he could focus on consolidating the Authority's gains and content himself with knowing that the KTDA has contributed significantly to improved welfare among its tea growers. Furthemore, Karanja could still push the multinational tea manufacturers to hire more Africans as factory managers instead of pursuing Africanization through further vertical integration of the KTDA. In several years, when the KTDA is more established, Karanja could revisit his plan for expanding the Authority's role in manufacturing and other aspects of the tea industry.

Since his proposal is now being debated not only in KTDA offices but among growers and employees of the multinational tea firms, Kenyan government agencies, and international donor organizations, Karanja must soon decide whether to push ahead with the expansion plan. Karanja understands the importance of maintaining the KTDA's economic viability, as well as the importance of securing high-level political support for his proposed reforms. Karanja must therefore deal with the manufacturing question in a way that is sensitive to both the economic and political realities of the Kenyan tea industry. Should Karanja formally seek approval from the government for his plan to take over the manufacturing of tea produced under the KTDA's auspices? If so, how should Karanja seek to win support for his reforms from concerned stakeholders? If not, how might Karanja convince the multinational tea firms to hire more Africans in managerial roles?

Appendix

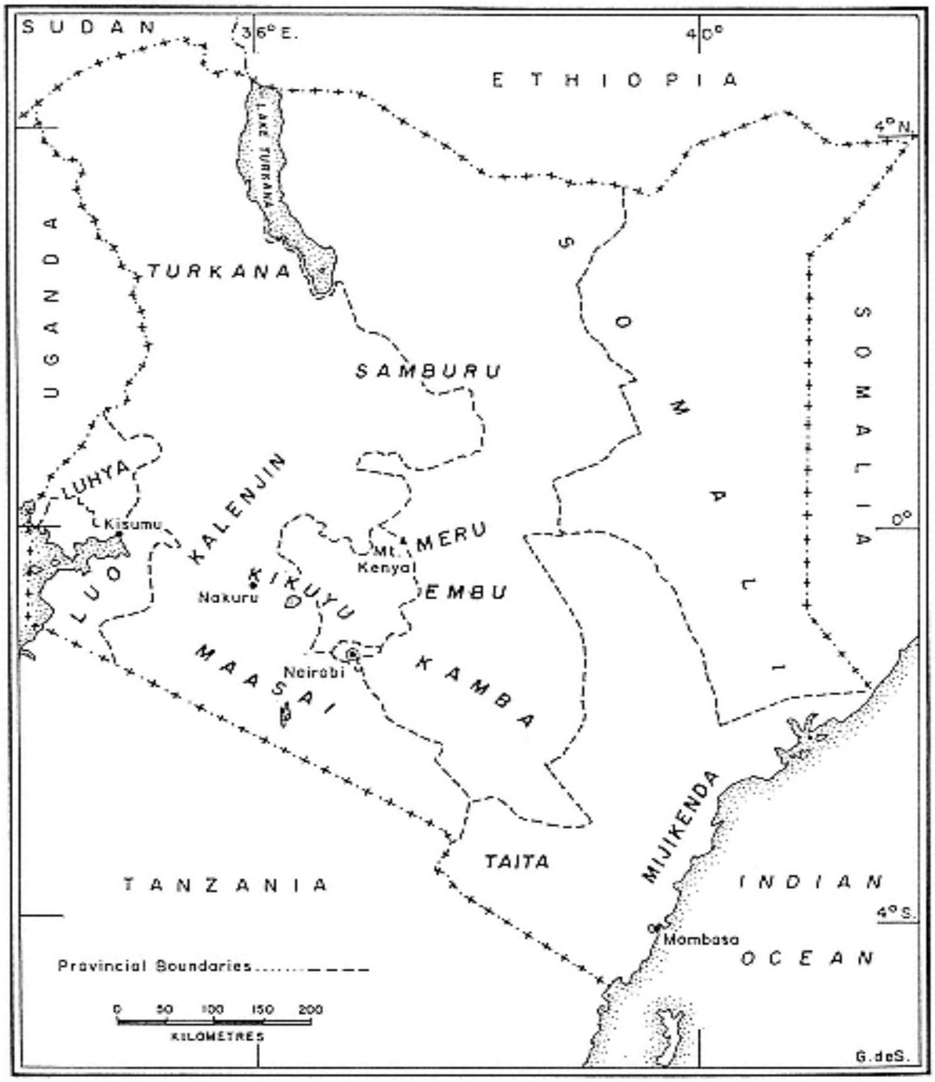
Figure 1: Charles Karanja in 1970

Source: David Leonard, *African Successes*

Figure 2: Geography of Kenya

Source: CIA World Factbook

Figure 3: Geographic Distribution of Kenya's Ethnic Groups



Source: David Leonard, *African Successes*

Figure 4: Tea Growing Regions of Kenya

Source: Wikipedia Commons

Figure 5: Average Annual KTDA Operating Costs

Year	*Cost per Ton in Constant (1976) K.shs.*
1963	3,868.9
1964	4,203.6
1965	2,877.6
1966	2,224.3
1967	1,821.0
1968	863.3
1969	1,060.8
1970	578.2
1971	666.1
1972	482.7
1973	367.8

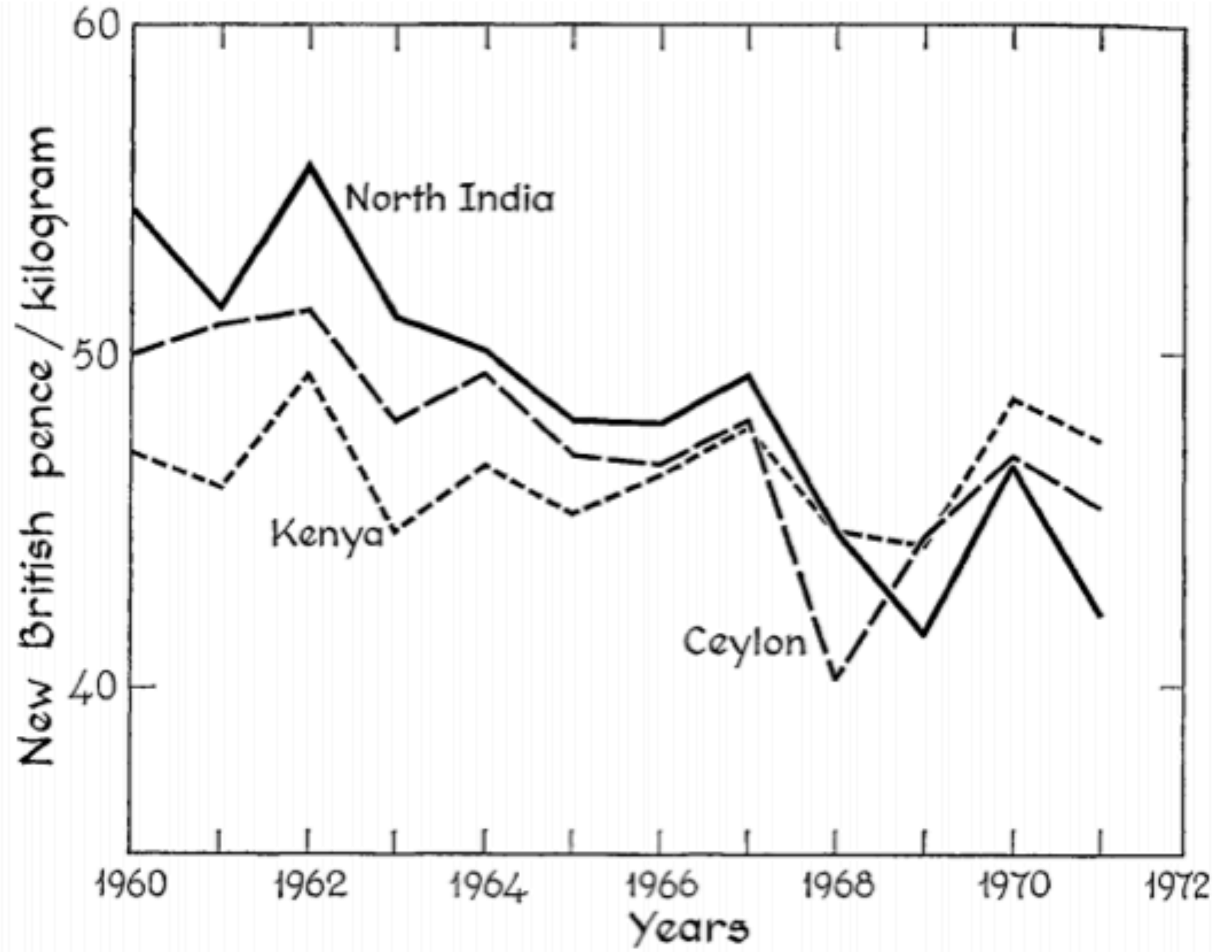
Source: David Leonard, *African Successes*

Figure 6: Tea Production in Kenya (area in thousand hectares, production in thousand metric tons)

Year	Area		Production	
	Small-holder	Total	Small-holder	Total
1960	0.97	15.9	—	13.8
1961	1.4	17.4	0.09	12.7
1962	2.5	19.8	0.23	16.4
1963	3.4	21.4	0.32	18.1
1964	4.3	22.8	0.6	20.2
1965	5.1	24.5	1.2	19.8
1966	6.5	27.2	1.8	25.4
1967	8.4	30.2	1.6	22.8
1968	10.6	33.5	3.9	29.8
1969	14.7	37.4	5.8	36.0
1970	18.0	40.3	8.0	41.1
1971	20.5[b]	43.4[b]	8.1	36.3[c]

Source: Dan M. Etherington, *Food Research Institute Studies*

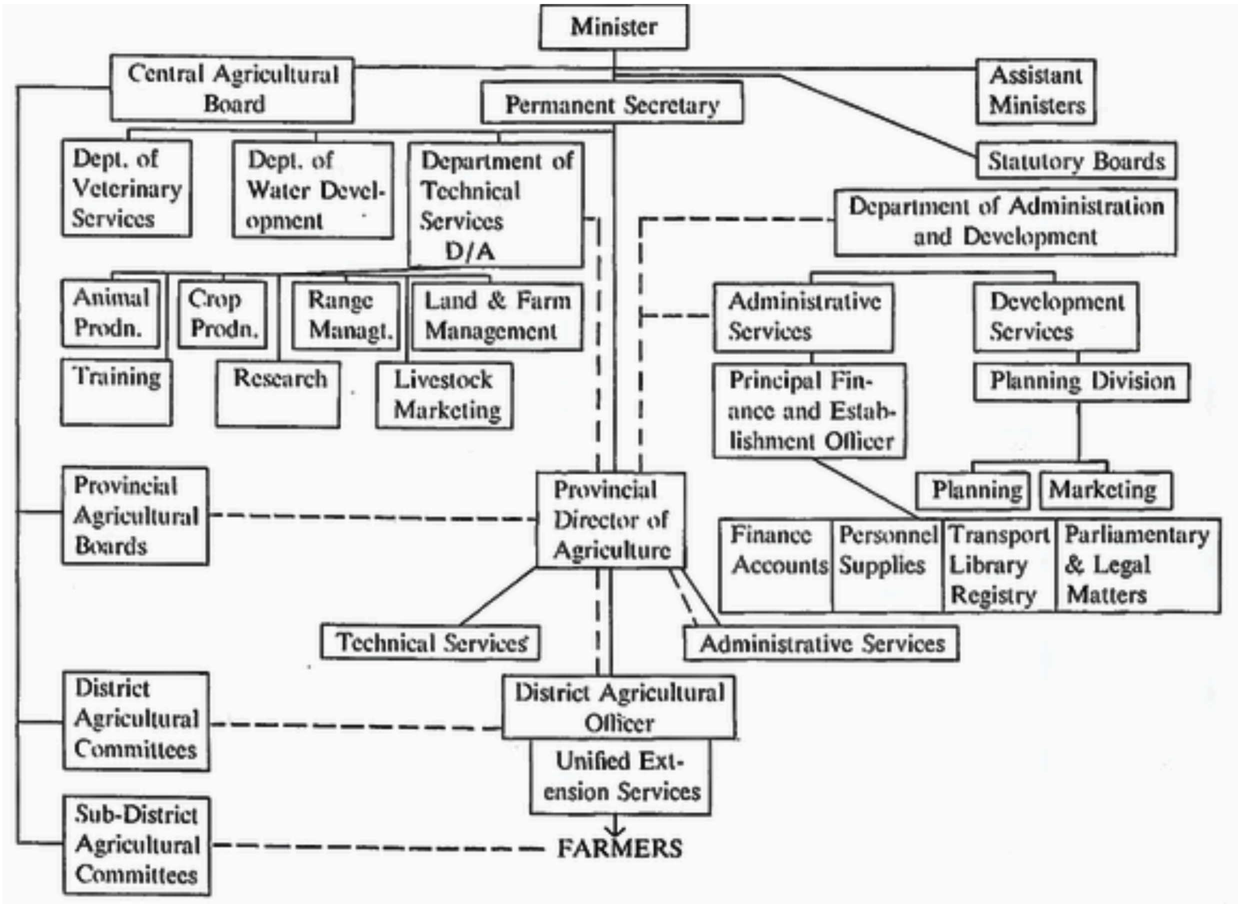
Figure 7: Annual Average Prices of Tea Sold at London Auction



* Data from International Tea Committee (ITC), *Annual Bulletin of Statistics, 1971*, p. 48; and ITC, *Monthly Statistical Summary*, Vol. 27, No. 1, Jan. 1972, p. 7.

Source: Source: Dan M. Etherington, *Food Research Institute Studies*

Figure 8: Organizational Chart for the Ministry of Agriculture, 1973



Source: Christopher Trapman, *Change in Administrative Structures: A Case Study of Kenyan Agricultural Development*

Note: The KTDA is considered a statutory board.

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[i] Smallholder farming refers to the practice of cultivating cash crops on a small plot of land, often by a single family that lives on the land being farmed.
[ii] Agricultural extension refers to the use of science or learned knowledge in the cultivation of crops.
[iii] The term *matajiri*, which means well-to-do in Swahili, refers to wealthy landowners with a significant stake in the agricultural sector.