**Author**: Kazimierczuk, A.H.
**Title**: Tracing inclusivity: Contribution of the Dutch private sector to inclusive development in Kenya. Case study of Unilever Tea Kenya Ltd., the flower sector and Lake Turkana Wind Power project
**Issue date**: 2020-10-22

# Chapter 3. Exclusive Inclusive Business: The Case of Unilever Tea Kenya Ltd.

## 3.1 Introduction

This chapter will use the case study of Unilever Tea Kenya Limited (UTKL), and its predecessors, to illustrate the potential contribution of a Dutch-British multinational company (MNC) to inclusive development in Kenya. Tea has been one of the most important export products for Kenya for nearly a century. The sector was initiated and formerly dominated by MNCs; today, however, tea production is dominated by smallholder farmers. Consequently, Kenyan tea is considered one of the success stories of the inclusion of indigenous smallholder farmers in a key economic sector. This chapter will apply the adjusted inclusive development lens as suggested by Dekker (2017) and (partly) Santpoort, Bosch, Betsema, & Zoomers (2017), to present a corporate history of UTKL, and its predecessors, in the country. By addressing complex local realities through years of operations, the objective of this chapter is to trace the process behind and the role this MNC played in the development of, professionalisation of, and inclusion of the smallholder tea farmers in this important sector in Kenya. The timeframe adopted in this chapter corresponds to the years between 1919-2008, i.e. from the start of operations until the year in which the company delisted from the Nairobi Stock Exchange, although some activities and reflections slightly exceed this timeframe. The analysis of nearly a century of the company's business operations within a constantly changing national context illustrates how local dynamics may negatively affect equal access to opportunities. It also demonstrates that inclusive development outcomes are not always a result of inclusive development processes. In fact, these processes appear to be quite 'occlusive' – happening behind closed doors among the selected strategic actors – and do not necessarily lead to widespread inclusive development outcomes.

## 3.2 Methodology

The company that is currently called 'Unilever Tea Kenya Ltd.' was chosen as a case study due to its Dutch link – the Unilever Group is a Dutch-British conglomerate, thus fitting well in the broader frame of the research project of which this PhD dissertation is part. Secondly, the company was listed on the Nairobi Stock Exchange between 1971 and 2008, which facilitated the access to official company data for this period. The corporate data used in this chapter is therefore taken predominantly from the company's Annual Reports for the period under review, provided either by the company itself or found in the Registrar of Companies in the Office of Attorney General in Nairobi (based on the official permission granted by Unilever Kenya to access the files). Despite great effort to collect reports, it was not possible to collect them all for the period under review. Out of 37 years of the business being listed on the stock exchange, there are six years for which the Annual Reports were missing: 1971, 1972, 1974, 1981-83. In most cases, however, it was possible to trace the missing financial and production information (with the exception of the Chairman statements) using other sources or the Annual Reports that followed the missing years. In addition, the official information is supplemented with a number of academic publications and newspaper articles, as well as a few interviews with the company management in Kericho and Nairobi. Ultimately, it was possible to put together a picture of nearly a century of operations of Unilever Tea Kenya Ltd, and its predecessors, in the historical context of tea sector development in Kenya.

Before proceeding to the descriptive part of the corporate history, the reference to 'Unilever Tea Kenya Ltd and its predecessors' must be explained. Through nearly a century of operations, the company that today is known as Unilever Tea Kenya Ltd has changed its ownership and name multiple times. It was first owned by a British company, Brooke Bond, and only became part of British-Dutch Unilever in 1984. The company was known as Brooke Bond/Kenya Tea Company Limited between 1920-1968, Brooke

Bond Liebig Kenya Limited between 1968-1982, Brooke Bond Kenya Limited between 1982-2004 and finally, Unilever Tea Kenya Limited (UTKL) since 2004[122] until today.[123] For simplicity, the name of the company in this chapter will be abbreviated to BBK for the operations until 2004 and UTKL afterwards.

## 3.3 Early Years in Kenya (1919-1971)

### *3.3.1 1919-1948*

Kenya's tea industry originates from a combination of numerous colonial activities. During the colonial period, a series of Crown Lands Ordinances were passed in Kenya to change land tenure systems and to formalise the transfer of land ownership from the indigenous population to the settler farmers. For instance, a regulation was promulgated in 1915[124] that, among other things, extended the lease of alienated land from a period of 99 to 999 years. Through this process, the Kericho region – which would become the most significant tea-growing area – was alienated from its original inhabitants, the people belonging to the Kipsigis ethic group.[125] Around the same time, established tea companies in British dependencies in Asia were showing considerable interest in Kenya as another potential tea-producing area as a response to the growing unstable political climate in their part of the world (Oucho, 1981; Swainson, 1980).

A set of experiments were carried out in Limuru and Nairobi within the first decade of the 20th century by, among others, Kericho's local District Commissioner, H. B. Partington and a settler farmer called Captain Barclay. These experiments confirmed that tea was suitable for growing in some of the country's ecological zones. During World War I (1914-1918), the colony's Department of Agriculture actively experimented with tea growing in the Highlands and Kericho areas (Talbott, 2002). Following the Great War, several European settlers who arrived in the area immediately embarked on further experiments in tea production. By 1924, one of these post-war arrivals, the Scotsman Arnold Butler McDonell, used seeds from both Captain Barclay and from India and China to develop a 20-hectare tea estate on which he built a small factory for processing tea leaves. He later became the first commercial tea producer in Africa (Tea. Make it Kenya, 2018). Soon, tea estates led by settlers emerged in the present Jamji and Chemosit estates and also in Buret, giving rise to the formation of Buret Tea Company Limited (Oucho, 1981).

At that time, the British multinational company Brooke Bond was mostly involved in global tea trading and distribution. The company was buying tea in India and Ceylon to sell it at the London Tea Auction. It was also distributing (marketing) bought tea under its well-known brand name. It was only in 1919 that BBK decided to move into tea production and invest in its first tea plantation in Assam in India. Tom Rutter, then in charge of Brooke Bond in Calcutta, India, noted during a hunting safari in Kenya in 1914 that the country had the potential for tea growing (Institute of Developing Economies, n.d.). As BBK was primarily a marketing and distributing company, they first appointed a selling agent[126] in Nairobi in 1916 to market their tea in East Africa. By 1922, a formal branch of Brooke Bond was established (Mohan, 2018; Swainson, 1978, 1980). After 1924, the marketing of tea on the local market became BBK's primary concern. The company actively and successfully promoted tea drinking within

[122] Unilever Group had already acquired Brooke Bond Kenya Limited in 1984, but decided to keep the existing name. At that time, Brooke Bond tea was a well-established and recognized brand. The company decided to change its name to Unilever Tea Kenya Limited 20 years later. More information about this decision can be found in section 3.4.2 of this chapter.

[123] The information is drawn from the company's annual reports for multiple years, as well as from Swainson (1980).

[124] See Annex 4 for laws relevant to the tea sector in Kenya (1902-2008).

[125] The second largest Kalenjin ethnic group (Leys, 1975).

[126] His name was Arthur Hirst and he was sent from his post in Calcutta.

Kenya and, in 1928, it opened a sales office in Mombasa (Dinham & Hines, 1984). Six years later, BBK was the only tea company with an established distribution network in Kenya, which gave the company a local monopoly on supplying all of the country's tea (Swainson, 1980).

East Africa remained a minor market in the 1920s, however, as tea was considered a luxury that only a handful of wealthy Europeans, Asians and Arabs could afford (Talbott, 2002). BBK's primary market was in the UK. At this time, tea was imported to Kenya from India and Ceylon and was locally marketed in two different forms: in bulk and in packets. Tea in bulk was traded predominantly via Asian wholesalers and aimed at the African market, which existed mainly in Zanzibar and the coastal regions of East Africa, but the proportion sold on the local markets was small. BBK imported and locally marketed mainly packeted tea and held only a small share in the bulk trade. Some European settlers were also cultivating tea in Limuru district on a smallholder basis to be sold on the local market (C. M. O. Ochieng, 2010). In the early 1920s, the small size of the tea trade created strong regional competition, while a high import duty was levied on tea once it arrived in the port of Mombasa (Swainson, 1980; Talbott, 2002). Regardless of these constraints, by 1924, BBK had managed to obtain a 50% share of the East Africa tea trading market (Swainson, 1978, 1980).

Despite competition and the small local market, BBK decided, in reaction to the unstable political climate in India and Ceylon, to move beyond tea marketing and to invest directly in tea development and production in East Africa. Investing in local tea production, BBK was seeking to supply the lucrative European market and to develop alternative producing areas, but they also foresaw the scope for expanding sales in Africa itself (Dinham & Hines, 1984; Swainson, 1980). The move towards tea production in East Africa was perceived as strategic by BBK's parent company in Great Britain, which saw a possibility to challenge the virtual monopoly held by its major global competitor – Lipton (Swainson, 1978).[127] The first step towards local tea production happened in 1924, when the company bought its first 405 hectares of land in Kenya near Limuru and an additional 2,024 hectares in Kericho[128] (the extension of the Kenya Highlands, also known as the "White Highlands"[129]). The year after, they established tea plantations (Oucho, 1981; Swainson, 1980). BBK also made agreements with a number of European farmers around Limuru[130] to buy their tea and process it at a central Brooke Bond factory at Mabroukie (in Limuru) (Swainson, 1978).

It is important to note that, until the 1960s, tea growing (like coffee, cross-breed cattle, and pyrethrum) was restricted to white colonial settlers and multinational tea companies (Leys, 1975; Van Zwanenberg, 1975). The official reason for such restrictions was to maintain high quality in these products. Such privilege derived, however, from decisions made in the early 20th century by the British Government to establish a white settler community in Kenya to assist in the development of the newly acquired colony. These settlers were encouraged to venture into labour-intensive agriculture. To this end, the colonial regime blocked Africans[131] from cultivating lucrative cash crops in order to ensure a ready

[127] As of 1936, Lipton was in the hands of Unilever (Hensmans, Johnson, & Yip, 2013). Read more about it in the section 3.4.1 of the chapter.

[128] The land in Kericho was bought from the British East Africa Disabled Officers Colony (BEADOC) - a scheme implemented after World War I in order to attract British ex-army officers to become agricultural settlers in the East Africa Protectorate. BBK formed the Kenya Tea Company to develop this estate (Oucho, 1981).

[129] As only people of European origin were allowed to settle in this part of Kenya, it was soon known as the 'White Highlands'. Mostly British settlers owned large plantations of coffee and tea as well as cereal farms and ranches (Van den Akker, 2016).

[130] These farmers were cultivating tea in the district on a smallholder basis following the colonial experimentation phase.

[131] The racial structure present in the Colony can be (to simplify) divided into three main groups: Europeans, the indigenous Africans and the immigrant Asians, mainly from India. This structure perpetuated a class-race hierarchy. Thus, upper-class British expatriates held positions in the civil service, professions, business and commerce, agriculture, the army and education. Middle-class Asians were skilled artisans, clerks, stationmasters,

supply of labour to the settler farmers (cf. Jørgensen, 1975; Van Zwanenberg, 1975). Moreover, boundaries were drawn to limit Africans to what were called "native reserves" (Jørgensen, 1975). These were some of the interventions of the colonial state manifesting strong protection of settlers' interests (Kosgei, 1981).

These restrictions worked as planned, as reflected by the early structure of the tea sector. By 1926, tea development in Kenya was dominated by two large foreign companies (BBK and James Finlay Company Limited), two locally owned public companies (Buret and Jamji) and ten small private planters, though, by the outbreak of World War II, there were only five private planters left. During the early period of the establishment of the tea industry (±1924-1936), two MNCs substantially invested their corporate capital in the import of seeds (Talbott, 2002). Over time, BBK gradually increased its planting area by further absorbing (mostly former settlers) smallholders' plots[132] and, together with the James Finlay group,[133] it held the largest portion of mature tea before and after World War II (Swainson, 1980). Consequently, it was estimated that, by 1943, non-residents held 70% of tea acreage while residents, mostly of European origin, held the remaining 30% (Swainson, 1978).

The highly exclusive developmental process supported by the colonial administration in favour of settlers and multinational companies during the first 25 years of the tea industry's expansion (1924-1948) clearly contributed to the speed and, indirectly, the success of BBK as one of the main marketers of teas and one of two largest tea producers. In a span of 25 years, both the production area as well as production itself grew from virtually nothing to over 6,500 hectares under tea cultivation and 6,000 tons (MT) of production (Figure 3), of which, on average, 60% was exported to the UK to be sold on the tea auction in London.[134] The growth of the industry could have been even higher without the international restriction schemes introduced in the 1930s.

As a result of the global depression and low tea prices on the London Tea Auction, as well as two rounds of international tea restriction schemes, marketing in East Africa increasingly focused on the local market. International Tea Agreements (ITAs) were introduced in 1933 and 1938, both for a period of five years, and restricted global tea production and area of production. Kenya managed to negotiate some exceptions from ITAs; nevertheless, it has been suggested that the restriction years limited the development of the Kenyan tea industry (Swainson, 1980; Talbott, 2002). Taking a closer look at Figure 3, it can be noticed that the main increase in the tea production happened in 1937. Given that the average maturity time of a tea bush is four yours for the first harvest and six years for the mature harvest, the 1937 increase in tea production should be attributed to the tea planted before the enforcement of the first ITA. Similarly, the expansion of the production area is much slower, almost stagnant, between 1933 and 1938 for the same reason. The small increase in the area of production was a result of negotiations between the Kenya Tea Growers Association (KTGA)[135] and the

postmasters, small businessmen and mid-level civil administrators. Lower-class Africans were mainly unskilled workers and peasants (Sian, 2007; Van Zwanenberg, 1975).

[132] Others involved in the growing of tea were (foreign-owned) Nandi Tea estates, G. J. Grant, E. C. Brayne, I. Q. Orchardson and Mathews. The last four companies were sold to Brooke Bond or African Highlands (the James Finlay group, see footnote below) by the 1930s (Kosgei, 1981). Jamji estate was further absorbed by BBK in 1946, and Buret in 1971 (Swainson, 1978).

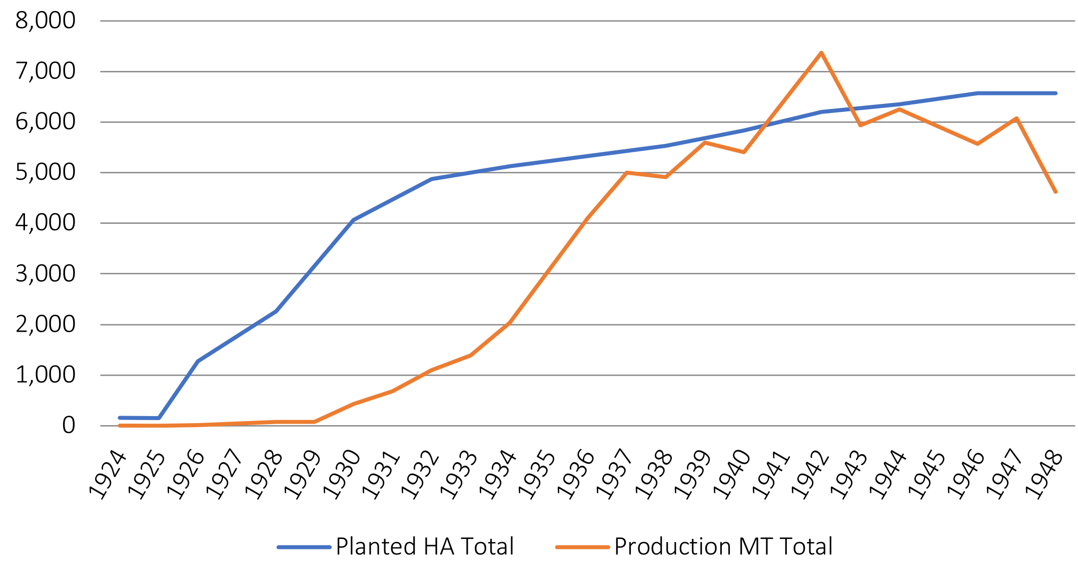
[133] In 1925, the James Finlay group formed a private firm registered in the UK – African Highlands Produce Company Ltd. that was handling the newly acquired land for tea production in Kenya (Swainson, 1980).

[134] Own calculations based on data found in Swainson (1980) and Talbott (2002).

[135] The Kenya Tea Growers Association (KTGA) is a voluntary organisation of plantation sub-sector members established by large-scale tea growers in 1931. The association, which is based in Kericho, was created to address the common interests of the large-scale tea growers (KHRC, 2008). BBK/UTKL were members of KTGA until 2006 (Unilever Tea Kenya Ltd., 2007).

International Tea Committee (ITC),[136] which granted Kenya some exceptions (cf. Swainson, 1980). Two multinationals (BBK and James Finlay) held the dominant position in KTGA and, in principle, supported the restrictions in line with the policy of their parent companies. They were, however, still highly dependent on local European tea growers to provide complementary input for their factories. Moreover, pressure was put directly on Kenyan (colonial) administration by the settlers themselves. The settlers who, in this case, represented the 'small' local tea growers, were a particularly powerful force in Kenya at the time and the local administration customarily took their side. Consequently, KTGA managed to negotiate an additional quota of land for tea development during the restriction years (Swainson, 1980).

Figure 3. Tea production and planted area between 1924-1948



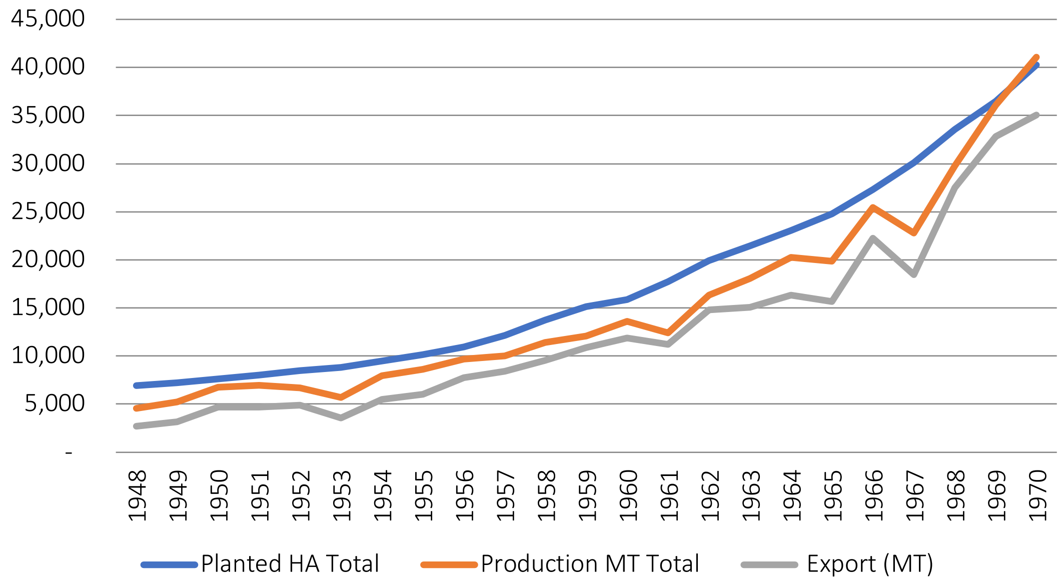

Source: Own elaboration based on data from (Swainson, 1980; Talbott, 2002)

### *3.3.2 1949-1970*

The expansion of the tea production area was permitted again once tea prices had risen after World War II. The 1950s and the 1960s were periods of rapid development for the tea industry in Kenya. The area under cultivation increased almost ninefold. The production increased over six times and tea export more than eight times (Figure 4). Such expansion was a result of major political changes that started during the last decade of the colonial period and continued during the Kenyanisation process that followed the country's independence. Tea became a highly 'political' crop: firstly, for nationalist reasons, caused by the earlier colonial prohibition; and secondly, for its contribution to the GDP and foreign exchange earnings (C. M. O. Ochieng, 2007). Consequently, it also became an important tool in supporting the development of "agricultural capitalists and rich peasants" (Steeves, 1978: 126).

[136] The International Tea Committee (ITC) was set up in 1933 by representatives of the tea growers in India, Ceylon (today's Sri Lanka) and the Netherlands East Indies (today's Indonesia) to administer the Regulation Scheme under the terms of the International Tea Agreement. The chairman of the ITC at that time was also the chairman of James Finlay, demonstrating that the Committee's interests were more oriented towards protection of the global large tea producers (Swainson, 1980). ITC was established as a result of tensions between the British and Dutch Tea Associations, which previously agreed to regulate and limit global tea production and export and not to allow surplus tea to flood the market and cause a drop in prices – an agreement that the Dutch side failed to respect in full (ITC, 2018).

Figure 4. Tea production, export and planted area between 1948-1970




Source: Own elaboration based on data from (KNBS, 1961-1963, 1966-1971; Swainson, 1980; Talbott, 2002; Wallis, 1997)

The tea sector was increasingly organised. In 1950, the Tea Board of Kenya had been established to regulate tea growing, manufacturing and trade. Furthermore, workers' unions were recognised on the tea estates in the 1950s (Swainson, 1980). In 1956, under the management of the East African Tea Trade Association (EATTA), instigated by a handful of tea producers, buyers and brokers, the Kenya Tea Auction was initiated in Nairobi to challenge the monopolistic position of the London Tea Auction[137]

[137] Tea auctions have a long history. During the 17th century, the British East India Company played a crucial role in the tea trade. The world's first tea auction was organized by The East India Company in the UK in 1839. In those days, a tea auction referred to an institution for transferring tea from China to Europe, as consumption of tea was higher in that part of the world. This marketing system was monopolised by the East India Company. As the world's tea production was predominantly controlled by the British, auction trading through the London auction was therefore accepted. Prior to World War II (1939-1945), more than 60% of the world's tea production was under British control and marketed in London. World War II interrupted the continuation of the London auction and sales were suspended from August 1939 until April 1951. It resulted in oversupply of tea in different producing countries. As an alternative to the London auction, sales resumed at the auctions in Calcutta (1946) and Colombo (1947) in order to dispose of the surplus. This was not sufficient for marketing all the world's tea production and a need arose to establish new auction centres in different producing countries and auctions were established including in Mombasa in 1956, where the bulk of East African tea production was directly consigned to the London auctions. In time, East African Producer members considered it worthwhile to offer additional volume and quantity to local export auctions. As quantities increased, the incentive for international buyers to open up offices in Kenya grew. Gradually, more international buyers were attracted, spreading interest to markets other than the UK. This led to a sharp decline in the quantity sent to the London auction. Gradually, the London Tea Auction Centre lost its dominant position. By the time the auction resumed in London in 1951, sale quantities had declined substantially. This downward trend continued. Finally, on 29th June 1998, the London Tea Auction was shut down (Maxwell, n.d.; Waarts et al., 2012; World's Top Exports, 2017). The future of tea auctions is currently unclear. With the development of the internet and mobile phones, and given that many plantations are financed by large companies, tea estates will in the future be able to post real-time data daily on the internet, enabling a viable future market. It is therefore very likely that auction centres will become redundant as a result of technological advances (Agritrade, 2010). In Kenya, there are call for the Mombasa auction to close. It is argued that Kenyan farmers stand to earn more if the tea auction is replaced with a blending and packaging facility that exports finished products to the international market (Trade Mark East Africa, 2018).

(East African Tea Trade Association, 2019; KHRC, 2008). As the large-scale growers dominated the Kenyan tea industry during this period, the establishment of EATTA and the tea auction was largely in response to the interests of this group. For instance, in 1968, O. Brook – the Chairman of BBK was also the Chairman of EATTA (East African Tea Trade Association, 2019). The government had supported the establishment of the Kenyan tea auction from the outset (Houtkamp & Van der Laan, 1993). Initially, though, the majority of East African tea was directly shipped for sale on the London Tea Auction, while in Mombasa trading concerned only very small-scale trading of secondary grade tea (Esipisu, 1998). Over time, local producers considered it worthwhile to offer additional volume to the local export auction. As quantities increased, so did the incentives of international buyers. As tea was mainly warehoused, handled and shipped from Mombasa, in 1969, it was decided to move the Auction from Nairobi to Mombasa (Houtkamp & Van der Laan, 1993). With time, most tea buyers had agents or representatives on this local auction.[138]

Despite an announcement by the Tea Growers' Association in 1949 that they would not oppose African tea growing if it was developed in organised lines (Thurston, 1987), it was not until the mid-1950s, under the Swynnerton Plan, that the Kenyan government lifted the restrictions prohibiting most African farmers from growing cash crops, including tea. In 1954, a five-year "Plan to Intensify the Development of African Agriculture in Kenya" or the 'Swynnerton Plan'[139] (for short) was formulated in reaction to the Mau Mau uprising (1952–56).[140] The plan aimed at liberalising land tenure and cash crop production in the former White Highlands to allow the African population to participate in this industry. It had both political and economic objectives. Firstly, the plan was to ensure political stability by raising the social-economic standing of a selected group of rural "progressive" African farmers who, in turn, would collaborate with the colonial regime. Such a move would also alleviate some of the major grievances that resulted in the Mau Mau uprising, including landlessness and unemployment in particular among the Kikuyu community. This privileged class of African peasants would consequently absorb potentially rebellious landless Africans as wage labourers (C. M. O. Ochieng, 2010; Okuthe-Ovugi, 1982; Saeteurn, 2019; Thurston, 1987). Secondly, the Plan sought to establish both market and state support for the commercialisation of African agriculture. Finally, the plan revolutionized African land tenure by establishing private property land rights (C. M. O. Ochieng, 2007). The recognition of individual land tenure would facilitate loan acquisition (through the title deed) and farm development by a few privileged Africans. These measures were being implemented by the time of independence in 1963 (Okuthe-Ovugi, 1982). Consequently, smallholder Kenyan African farmers with consolidated (and registered) farm units between seven to 10-acres in size were encouraged by British agricultural officers to actively participate in the colony's export economy (Saeteurn, 2019).

The Swynnerton Plan is considered to be the foundation of agricultural policymaking and innovation in postcolonial Kenya's agrarian development (C. M. O. Ochieng, 2007). The Plan had two far-reaching

[138] By the 1990s, 95% of sales on all tea auctions globally were conducted in tea producing countries. Kenyan tea producers were legally obliged to sell a minimum 20% of their tea production at the local auction; in practice, the majority of local production was sold through the Mombasa auction (Houtkamp & Van der Laan, 1993). Mombasa tea auctions trade Kenyan, Tanzanian, Ugandan and occasionally Zairean (now DRC's) teas (Van der Laan, 1986).
[139] Roger Swynnerton, a career field officer, arrived in Kenya in 1951 as Assistant Director for Field Services (C. M. O. Ochieng, 2007).
[140] The Mau Mau were the militant landless squatters and disgruntled land-poor individuals who formed the Kenya Land Freedom Army (KLFA). The Mau Mau conflict was essentially a Kikuyu civil war fought largely between land-poor Kenyans (KLFA) and land-rich ("loyalist", many of whom were mission-educated Christians and "chiefs"). The KLFA demanded the return of land title deeds, especially access to the European highlands. The conflict began in 1952, at which time the Kenyan government declared a State of Emergency. Much of the Mau Mau activities were situated in the Central Province. The Kenyan government eventually ended the insurgency in 1955 with the help of British troops; however, the late-colonial regime did not officially dissolve the State of Emergency until 1960 (Saeteurn, 2019).

consequences: it broke the monopoly of white settlers over commercial agriculture and extended the politico-economic structure of agrarian institutions and organisations, which had served white settler agriculture, into African commodity production. After its expiry in 1959, the colonial and later the postcolonial state continued to pursue policies and principles embedded within it, especially the notion of private property land rights and the principle of extending market and state control over the African commoditisation process. For the first time, the metropolitan government openly supported African agriculture production over the settler agriculture (C. M. O. Ochieng, 2007; Swainson, 1980). The Plan consequently laid the foundation for a national agricultural innovation system in Kenya that partly explains Kenya's 'exceptionalism' in terms of African agricultural policymaking and delivery at least in the 1960s and 1970s (C. M. O. Ochieng, 2007; Thurston, 1987).

In preparation for compliance with the Swynnerton Plan, in 1955, the Ministry of Agriculture expanded the 1950 pilot tea-growing project in Nyeri District[141] from 37 acres to 126 acres, and began to incorporate other African "reserves" located in both central and western Kenya for this purpose. Areas with favourable soil and high altitude, like the Nyanza and Kericho Districts among others, were considered suitable for motivating local "progressive" smallholders to plant tea. The colonial government was keen on expanding into these locations in western Kenya because they knew that some ambitious local farmers in the region were already growing tea either for home consumption or, (more frequently) for sale on the black market. Prior to 1955, the Department of Agriculture supported the project to grow sun-dried tea for local consumption;[142] any individual household in the province that wanted to produce it was encouraged to do so. This tea was referred to as 'sun-dried tea' because it was processed by drying green tea leaves in the sun on goatskins and later pounded in a mortar and pestle (C. M. O. Ochieng, 2010; Thurston, 1987). Consequently, two pilot smallholder tea schemes were established in 1956 and 1958: the Central Province African Grown Tea Marketing Board (with the Ragati Tea Factory in Nyeri District, Central Kenya opened in 1957. It was constructed by an engineer seconded from BBK with money advanced by the Colonial Development Corporation (CDC)[143]), and the Nyanza and Rift Valley Provinces Tea Marketing Board. These pilot schemes were heavily subsidized by the colonial state that remained keen to undermine peasant rebellion through economic incorporation (C. M. O. Ochieng, 2007; Saeteurn, 2019; Swainson, 1980; Thurston, 1987). The government's expansion of the smallholder tea planting programme in the mid-1950s ultimately brought 18,000 farmers into the industry (Saeteurn, 2019).

Following the success of the two pilot schemes, the Special Crops Development Authority (SCDA) was established in 1960, with a mandate to promote smallholder participation in cash crops such as tea and pineapples (C. M. O. Ochieng, 2010). From 1960 through 1963, in keeping with the objectives of the Swynnerton Plan, the SCDA adopted the creation of African agrarian 'middle peasants' in the tea sector

---

[141] The first tea scheme was established in Nyeri in 1948 by Tom Hughes Rice, Assistant Agricultural Officer. He had seen the tea bushes in Fort Hall and had the idea of introducing tea commercially in the district he was posted in. He got permission to establish the first tea nursery at Karatina. The small Nyeri scheme remained the only real tea development in any African districts until planting began again in 1955 (Thurston, 1987).

[142] Some tea stumps (probably stolen) from Limuru estates were growing in Fort Hall District (the heartland of the Kikuyu plateau and the traditional homeland of the Kikuyu people (Taylor, 1967)) on small plots since 1933. In the 1940s, there was one experimental plot and one belonging to Chief Njiiri, who had given land for the experiment, each about a quarter of an acre. This tea was sun-dried. In the area, four or five other local farmers were also growing tea (Heyer, 1974; Thurston, 1987). Other smallholder experimental plots were started in Kericho as of 1949. Small peasant farmers were given between one third and one acre of land to cultivate tea supplied by the government (Swainson, 1980).

[143] The name was later changed to the Commonwealth Development Corporation. CDC was a finance organisation set up in the UK after World War II to promote industrial and agricultural projects in the colonial territories (Thurston, 1987).

as its general social development ideology.[144] Almost anyone willing to participate in the smallholder project could do so through a widely accessible credit scheme, low initial deposits and minimum starting requirements (C. M. O. Ochieng, 2007). Initially, chiefs, local leaders, large landowners and innovators were the main targets of the Plan, but tea spread quickly among the entire farming community (Steeves, 1978). The SCDA board was initially composed of government staff and experts from the commercial tea companies, Brooke Bond, James Finlay and Eastern Produce (Swainson, 1986), while smallholder representation was only allowed as of 1962 (cf. C. M. O. Ochieng, 2007).

The inclusion of large estates in the government's expansion tea programme was a response of the Kenyan Ministry of Agriculture to the concerns of the large tea-growing estates about the Swynnerton Plan. Unsurprisingly, the large plantation estate owners were against the policy that encouraged African smallholders to enter the agricultural export market, as they feared falling prices and loss of market control (Saeteurn, 2019; Swainson, 1986). Initially, BBK was reluctant to assist as well but it soon realised that it could be in their interests to support it (Swainson, 1980); indeed, this proved to be the case.

Since BBK was primarily a marketing and distributing company, it mattered to a lesser extent who produced tea, as long as it was grown to the required standards and a reliable source of supply was established (Dinham & Hines, 1984). In exchange for its expertise provided to the Department of Agriculture on both the growing and manufacturing side of tea production, together with other MNCs, BBK was able to negotiate two major changes that would work to its advantage. Firstly, the estates received the assurance from the government that the trade of the illegal 'sun-dried tea' would be banned, which indeed was enforced in 1964 (Swainson, 1977, 1980). Secondly, BBK imposed on the smallholders the high tea-plucking standard that they had developed. Moreover, through their place on the SCDA board, the tea-growing estates were in a position to set the price they would pay for the green tea leaves delivered to their factories by the smallholders (Saeteurn, 2019). Overall, through their involvement in SCDA, BBK was allowed to purchase the higher quality tea from smallholders for a price they set up and to blend it with its own lower-quality tea, ultimately maintaining the control over tea production in Kenya (Swainson, 1977, 1980). Consequently, the Swynnerton Plan was seen as a political and business success as it took political pressure off the companies (allowing them to keep their plantations) while ensuring access to high quality tea production from smallholders (Dinham & Hines, 1984).

After gaining independence in 1963, Kenya established the Kenya Tea Development Authority (KTDA),[145] which replaced SCDA in 1964. The first tea scheme was initially a project of the CDC with the objective of loaning smallholder farmers money to establish tea-processing factories (Thurston, 1987). Swynnerton's presence as CDC Agricultural Adviser in the early 1960s convinced the World Bank to fund the full-fledged tea smallholder project in Kenya (C. M. O. Ochieng, 2007; Thurston, 1987). Subsequently, a World Bank–CDC–KTDA–Government of Kenya Loan Agreement was signed in 1964. This agreement gave the World Bank and the CDC wide powers in running the KTDA. The KTDA board, which was responsible for overall management functions, consisted of eighteen members: nine members representing smallholders; the Permanent Secretary in the Ministry of Agriculture (the Director of Agriculture); the Chairman of the Tea Board of Kenya; a representative of the

[144] Prior to the establishment of the SCDA, tea had never been successfully produced by smallholders anywhere in the world. In 1956, Provincial Agricultural Officer of Central Province Graham Gamble was determined to see the smallholder project succeed in Kenya. As a former officer in India and Sri Lanka, he knew that smallholder tea can only succeed with strict supervision. He therefore insisted that the smallholder tea project in Kenya should be based on high-quality tea grown under carefully supervised conditions (C. M. O. Ochieng, 2007; Thurston, 1987).

[145] In 2000, the name was changed again to the Kenya Tea Development Agency (KTDA) following the privatisation of the Kenya Tea Development Authority as part of the structural adjustment programme (C. M. O. Ochieng, 2010).

Commonwealth Development Corporation (CDC); a representative of the World Bank; the General Manager (appointed by the Board); a Chairman appointed by the Minister for Agriculture; and three other members appointed by the Minister for Agriculture. The composition of the board of directors was intended to bring together a wide range of stakeholders. Particularly interesting was the presence of the smallholder representatives, who made up half of the board. Nevertheless, there were asymmetrical power relations between the various players (state, business, farmers), including a 'veto' power for the World Bank and the CDC. That meant that most important decisions, such as senior management changes, changes in levies charged on growers, alterations in managing agency contracts between the KTDA and multinational tea companies, and any change of more than 10% in the planting programme needed the World Bank's and the CDC's approval (C. M. O. Ochieng, 2007).

Until 1977, the KTDA's unbalanced structure rendered it little more than an extension and leaf collection service to the MNCs and their estates. The multinational companies, including BBK, assisted with the construction of KTDA factories in the 1960s and 1970s, provided expertise on tea cultivation and manufacturing and also undertook marketing tasks. They also acted as management agents for KTDA factory companies until 1977. The CDC held at least 50% shares in the early KTDA factory companies (autonomous companies, by law owned and managed by, or on behalf of, the KTDA) and the KTDA held the other half. The World Bank and the CDC held wide powers over policy and recruitment of staff. The role of the Government of Kenya was limited to guarantee foreign loans but it did not hold any shares in the KTDA or its factories (C. M. O. Ochieng, 2007; Swainson, 1980). The KTDA Head Office also regarded the smallholder representatives as advisory bodies, so their participation was of limited value from the 1960s through the 1990s. Nevertheless, the inclusion of smallholder representatives in the scheme provided them with critical experience in shareholding, management and decision-making that would prove crucial during the privatisation of the scheme in 2000 (C. M. O. Ochieng, 2007).

Due to pressure from KTDA's lenders, the World Bank and the CDC, and its managing agents (Brooke Bond Liebig, James Finlay and George Williamson), from 1964 onwards there was a marked shift in the KTDA from developmental concerns (focusing on widespread participation of smallholders farmers) to commercial considerations (focusing on middle- to upper-strata farmers that could afford to pay their way through the scheme). It resulted in a rapid reduction of credit throughout the 1960s (which was abolished completely in 1972) and introduction of a Grower Financed Planting Scheme that targeted relatively well-off farmers who could afford to participate in the scheme without credit. KTDA argued that "lower-strata farmers with less than 0.8 ha of land were too poor to be helped" (C. M. O. Ochieng, 2010: 146).

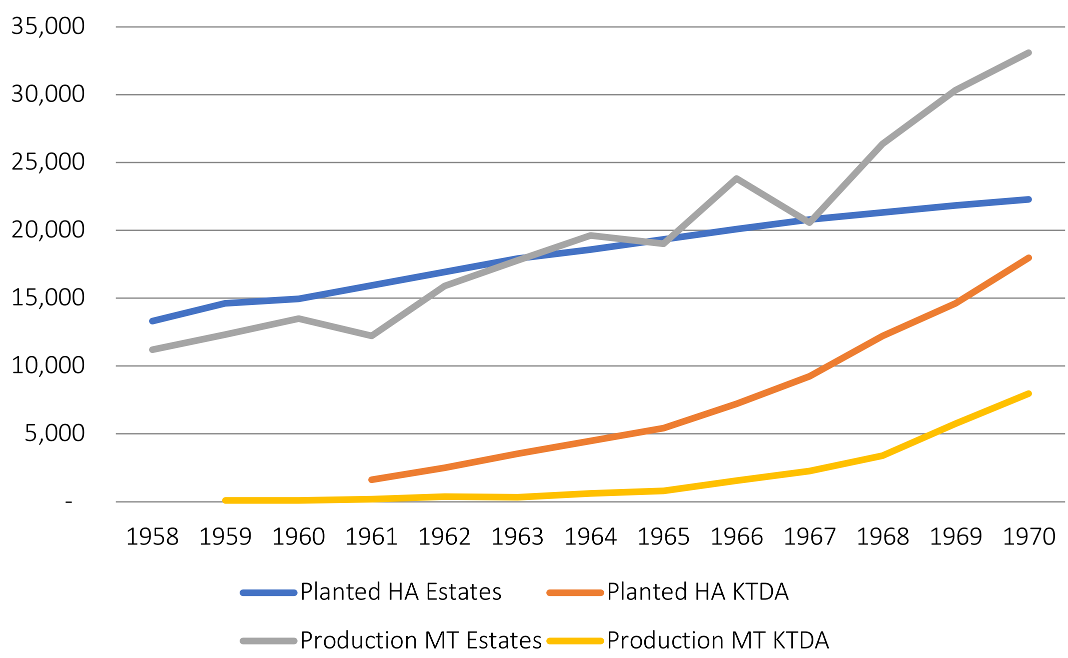
KTDA explained this shift on efficiency and financial grounds but the rapid expansion of the smallholder scheme constituted a serious threat to the multinational tea companies in the 1960s and 1970s, as well as to a number of other local estate tea companies owned by members of the ruling Kenyatta coalition (C. M. O. Ochieng, 2007). This argument is supported by the behaviour of KTDA after the introduction of vegetative propagation (VP) methods[146] during the Third Development Plan (1968–72) (which was a good opportunity to expand the planting area at substantially lower costs). Despite this technical innovation, KTDA increased rather than lowered the cost of participation in the scheme with a view to excluding lower strata farmers from the tea project. By 1970, the cost of participating was over 10 times (in real terms) than during the period 1960–63 (C. M. O. Ochieng, 2007).

The Kenyan (colonial and then national) government plan was that the majority of unemployed residents would be absorbed into the tea-sector economy as simple wage labourers (particularly from the western Kenya region where unemployment was very high). This, however, was not what most of these unemployed residents (who were mostly small-scale farmers) wanted or did in practice

[146] VP involves replacing seedlings (planted in KTDA's nurseries) with cuttings from 'mother bushes', which was a much cheaper practice (C. M. O. Ochieng, 2007).

(Saeteurn, 2019). In spite of the increasing costs of participation, a number of farmers were determined to join the scheme and succeeded. The credit constraints, however, forced many farmers across the country from 1964 onwards to start acquiring and planting tea plants illegally. It was a struggle for survival for many smallholder peasants, who exerted serious pressure (almost everywhere) to be allowed into the programme. Some peasants grouped together with similarly placed neighbours to pool their funds, or they asked middle- or upper-strata friends and relatives to set aside an amount that would allow them to purchase tea plants. Some KTDA field officers were also willing to help the 'illegal farmers' with the extension services, neglecting the strict KTDA rules. Widespread illegal tea growing represented a mechanism adopted by the smallholder tea farmers to fight for their position in the sector. As a result, by the early 1970s, the KTDA realised that there were more farmers planting tea illegally than legally, and it decided to absorb them formally into the system by declaring an amnesty on all illegal planters and plantings. The Grower Financed Planting Scheme was also scrapped (C. M. O. Ochieng, 2007; Steeves, 1978). Despite the exclusive process behind smallholder tea development in Kenya imposed and led by MNCs, international donors and nascent local elite in the 1950s-1960s, within a decade, smallholder tea schemes started to swiftly develop alongside the estate sector (Figure 5) (Swainson, 1986).

Figure 5. Tea production and planted area by estates and smallholder tea farmers (KTDA) between 1958-1970



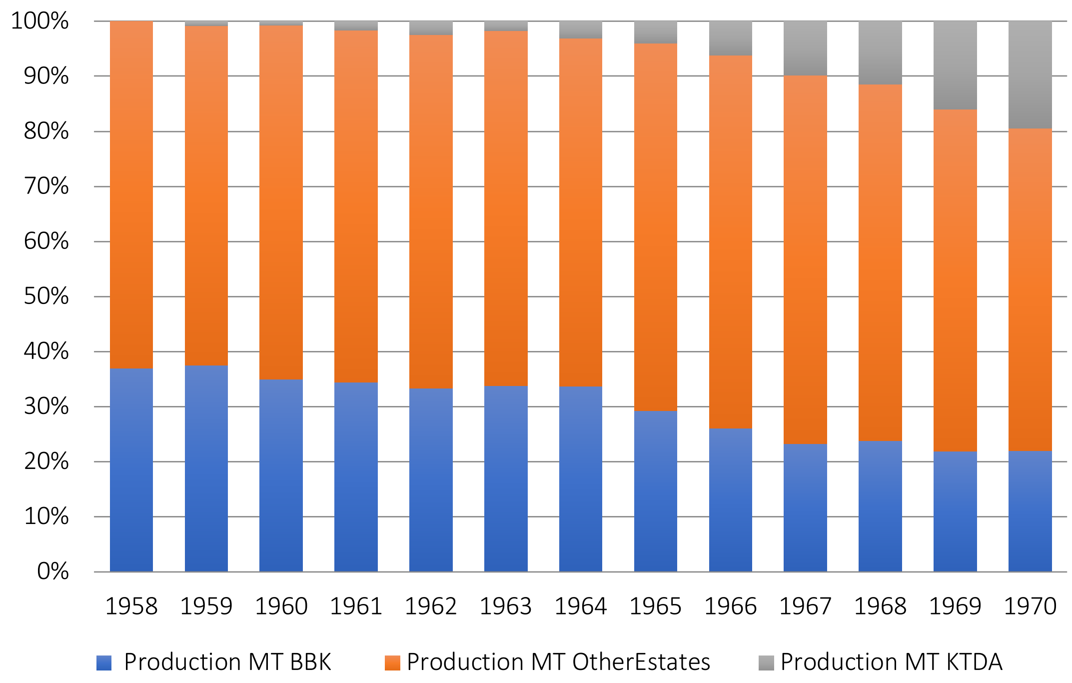

Source: Own elaboration based on (KNBS, 1961-1963, 1966-1971)

In the meantime, in plantation agriculture, multinationals continued to exercise major influence on trade and production in commodities between the 1950s and the 1970s (Jones, 2005). The focus of BBK and other tea producers shifted towards the export market, but also to an increase in productivity. Between 1949 and 1970, BBK expanded its production area and built a total of seven new tea manufacturing factories[147] (N. Hall, 2000; Swainson, 1980). More importantly, it was able to increase

[147] The new tea-processing technology was based on the Rotorvane machine pioneered in India. Its adaptation in the new factories in Kenya allowed Kenya to immediately adopt the CTC method of tea manufacturing. CTC stands for crushing, tearing and cutting. This technology was considered superior in comparison to the orthodox methods of tea manufacturing. Moreover, the tea that was the end-product of this method was known to have a

quality and labour productivity by sponsoring research on new, higher yielding varieties, processing techniques to improve tea quality and introducing the use of herbicide as well as new plucking techniques.[148] These advancements were realized at the Tea Research Institute, which was established by the company in Kericho in 1949 (Huq, 1996). Until the 1960s, BBK and James Finlay estates controlled the largest share of Kenya's tea growing area, while BBK held a monopoly over the internal marketing of tea, yet their dominant position was challenged by rapidly expanding smallholder tea production (Figure 6 and Figure 7) and by the rise of African nationalism.

Figure 6. Share of the total tea production between BBK, other estates and smallholder tea farmers (KTDA) between 1958-1970

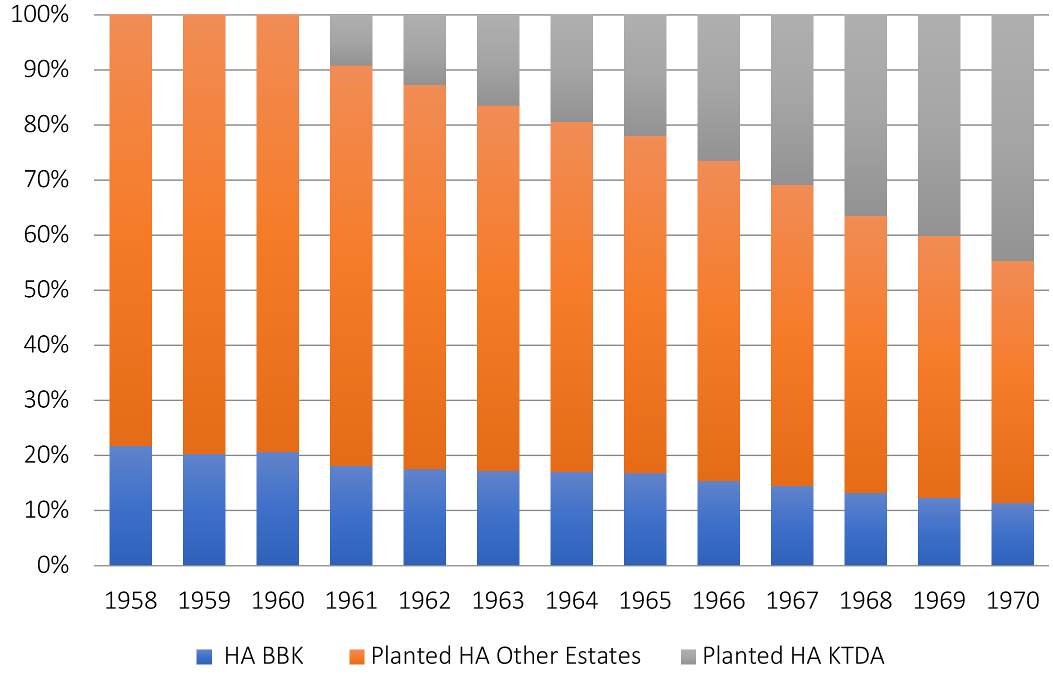



Source: Own elaboration based on (KNBS, 1961-1963, 1966-1971)

stronger taste and faster infusion time. This immediate adjustment of the newest technology gave Kenya the edge over the tea produced and exported from Southeast Asia, where the adaptation of this technology was related to heavy costs of conversion in the local factories. It also saved on labour and production time (N. Hall, 2000; Swainson, 1980).

[148] The new plucking technique involved the better organisation of labour and its productivity. The employees of the estate were ordered to pluck the tea leaf more firmly and pluck only the top three or four leaves and the bud, instead of random plucking of any tea leaves. BBK, through its involvement in SCDA and later KTDA, imposed even higher standards for tea plucking on the smallholders: only two leaves and a bud. The higher quality tea produced by smallholders was later mixed with BBK's lower quality tea (Swainson, 1980).

Figure 7. Share of total tea planting area between BBK, other estates and smallholder tea farmers (KTDA) between 1958-1970




Source: Own elaboration based on (FAO, 2019; KNBS, 1961-1963, 1966-1971)

Like many newly independent countries, Kenya went through a process of Africanisation or Kenyanisation as it is sometimes referred to in the 1960s and 1970s. Kenya's Africanisation differs, however, from similar processes in other African countries. To properly understand it, it is necessary to go back to the early 1960s, when two Lancaster House Constitutional Conferences were held (in 1960 and 1962) in London with the purpose of negotiating and drafting a new constitution for independent Kenya (cf. Sian, 2007). Most of the commentators on this transfer of power from the British colonial administration to Kenya nationals described it as a bargain addressing African 'land hunger' supposedly struck between moderate African nationalists and multinational capital at the expense of the European mixed farms. This bargain, influenced by British big business groups in Kenya, was cemented with the transfer of vast tracts of land in the former 'White highlands' to African farmers.[149] This solution was seen by the colonial authorities as the only way to preserve the most dynamic portion of Kenya's agricultural economy— its plantation estates. Moreover, such a bargain protected the private sector, prevented anti-capitalist elements from seizing power and laid the preconditions for a smooth and pro-capitalist transfer of authority to moderates (Tignor, 1998).

The first national elections were held in Kenya in May 1963 and Jomo Kenyatta, the supposed leader of Mau Mau, and his KANU party assumed power on 12 December 1963 with what appeared a rather nationalist agenda (Sian, 2007; Tignor, 1998). The Africanisation policy was the priority. President Kenyatta laid down its guiding principles in his introduction to Sessional Paper No. 10 of 1965 ('African Socialism and its Application to Planning in Kenya') (GoK, 1965), which he also described as "Kenya's

[149] In Kenya, colonial policymakers systematically sought the support of big business, especially British-based capital. The latter were putting pressure on colonial officials in London and Nairobi during the 1960-1962 period via a committee representing business executives from the British business groups in Kenya (including BBK) through (for instance) a memorandum "The Future of British Investment in Kenya". This document highlighted the importance of large-scale foreign capital and its preservation in a soon-to-be-independent Kenya. Ultimately, the British government provided substantial funds (i.e. to subsidise land transfers) that were used effectively to protect the larger interests of European investors (Tignor, 1998).

economic 'Bible'" (Leys, 1975: 221). These intentions were later confirmed in the White Paper on "Kenyanisation of Personnel in the Private Sector" (Ministry of Labour, 1967). The aim of the Africanisation policy was to deconstruct the social barriers, to reverse the underdevelopment of the colonial era and to transfer economic power into the hands of Africans (Gatheru, 2005; Leys, 1975). Among the more aggressive Africanisation initiatives introduced, was new legislation on the issues of immigration and trade. The Immigration Act of 1967 allowed the government to determine who could and who could not own businesses in Kenya. Similarly, the Trade Licensing Act of 1967 gave preference to citizens over non-citizens in the issue of trade licences. The Act listed certain commodities (such as maize, rice and sugar) and services that could only be traded and provided by local citizens. The main aim of this act was, however, the elimination of a large Asian business community from these trading activities (Rood, 1976; Sian, 2007).

The Kenyan interpretation of African Socialism sought to affiliate the nationalist demands for African freedom and opportunity with the continuation of the capitalist system. With some individual exceptions, Kenyan nationalists had little interest in reducing foreign influence anywhere other than in landowning (Tignor, 1998). The new Kenyan government actively pursued the preservation of close ties with Western capitalist economies and Britain remained an important trading partner (Swainson, 1980). For instance, President Jomo Kenyatta put Bruce McKenzie in the position of Kenya's minister for Agriculture. He was the only colonial-era Cabinet minister after independence. McKenzie played this role until 1969 and he was instrumental in promoting ties between Kenya and European and multinational companies (J. Kamau, 2019; Opiyo, 2019).[150] Meanwhile, multinationals in Kenya benefited as the government encouraged the entry of foreign capital into the country.[151] In order to avoid overseas influence, foreign companies were required to make shares and managerial positions available to African Kenyan nationals and other representatives of the political elite[152] (Sian, 2007). Therefore, the nationalisation of commerce and industry was delayed and constrained by the Kenyatta government's need for continued reliance upon European and Asian capital and their skills (Gatheru, 2005).[153]

In response to this political climate, foreign multinational companies operating in Kenya, including BBK, started to diversify their operations (Langdon, 1974). Many MNCs were willing to engage in import substitution, anticipating indigenisation of the trading sector (Jørgensen, 1975). They were also ready to vertically diversify their labour in order to internally redistribute their income, while expanding

[150] It is reported that he used his position to enrich himself by acquiring a stake in many of the businesses he helped to broker. See, for instance, his involvement in establishing Dansk Chrysanthemum Kultur (DCK) – the first flower company in Kenya in 1969 in Chapter 4. It is argued that McKenzie was also helping many of his fellow Cabinet ministers to follow a similar path (J. Kamau, 2019; Opiyo, 2019).

[151] To attract more diverse foreign investment and to halt the erosion of confidence among foreign investors caused by the 'Africanisation' policy, the Kenyan government decided to enact the Foreign Investment Protection Act (FIPA) in 1964. The Act guaranteed foreign investors the right to transfer profits, dividends and capital out of the country. The investors were also assured that their firms would not be compulsorily acquired under the indigenisation policy (Langdon, 1978). The Sessional Paper no. 10 of 1965 also supported this commitment (Leys, 1975). This move resulted in inflow of equity capital in the 1960s and 1970s, mainly in textile and agro-based industries (Kaplinsky, 1978; Langdon, 1978; Leys, 1975).

[152] Many of the former colonial administrators who remained in Kenya when they retired from government service were promptly recruited onto the boards of Kenya's most important corporations (Tignor, 1998). The same was true for the members or close supporters of the ruling Kenyatta coalition (C. M. O. Ochieng, 2007).

[153] Jorgensen (1975) offers a strong critique of the Kenyan indigenisation process. He argues that the Africanisation process did not sufficiently integrate various sectors and subsectors of the economy to increase self-reliance. It also failed to reduce dependence on the import of foreign technology and goods. Moreover, the Kenyan economy continued to depend heavily on the export of agricultural raw materials and of minerals (Jørgensen, 1975). Consequently, Kenya, with its supposedly radical and anti-European Mau Mau conflict, completed its decolonising phase with its private sector remarkably intact (Tignor, 1998).

domestic markets and creating wage employment, protecting the firm's position on the market (Leys, 1975). In 1968, Brooke Bond merged with British Liebigs Meat Company and formed Brooke Bond Liebig Limited.[154] BBK consolidated its interests in the food and beverage sectors in 1967 by acquiring a 30% interest in a fruit and vegetable canning plant – Kabazi Canners. Apart from the tea production and marketing, BBK was already involved in such activities for coffee. New ventures allowed the company to increase its range of products to include canned foods, tea and coffee. BBK continued its expansion and diversification. In 1968, it took over an existing fishing fly-tying factory in Kericho and, a year later, it acquired a substantial interest in a local financing institution called East African Acceptance Limited. As of 1968, the estate division of BBK expanded to include new industrial crops, such as tara (used to manufacture tannin) and cinchona (used in the manufacture of quinine). In parallel, BBK expanded the estate area by acquiring indebted smaller tea estates. The last major purchase was made in 1971, when BBK acquired the Buret Tea Company, the only remaining large local tea estate, thus adding 850 ha of mature tea area to their existing estates in Kericho (Kaplinsky, 1978; Swainson, 1980, 1986).

Finally, minority shareholding by the Kenyan government and by African Kenyan citizens was seen by many MNCs as a sign of government approval and a form of 'vaccination' against the risk of further nationalisation (Jørgensen, 1975; Langdon, 1974; Swainson, 1980). In 1971, BBK were among such firms and issued shares on the Nairobi Stock Exchange (Langdon, 1974; Swainson, 1980). The Initial Public Offering (IPO) was followed by complicated negotiations over the pricing of the new shares between the company and the Capital Issues Committee (CIC) of the Treasury of Kenya. The latter reportedly pressured the foreign company into pricing the shares as low as possible to enable more Kenyan citizens to buy them. BBK ultimately agreed to issue about 11% of its local share capital as shares. Despite the reportedly low initial share price, local private investors and 'citizens' bought only 2% of the IPO. The government, however, took a direct interest in this IPO, taking an 11.8% of available shares (Swainson, 1977, 1980). Direct shareholding in a profitable company like BBK provided further opportunities for the formation of a political-bureaucratic bourgeoisie and its inner circle, such as lucrative shareholdings in subsidiaries, recruitment to highly paid executive positions in the structures of a company, or preferential servicing or distribution services from such companies (Langdon, 1974). For the MNC, such appointments were yet another form of political insurance (Jørgensen, 1975). To conclude, through the Kenyanisation of BBK, state power was used to (among others) support the reinforcement of the emerging new African bourgeoisie by providing access for prominent Africans to positions and financial benefits from foreign multinational companies operating in the country (Langdon, 1974). On the other hand, BBK was able to use nationalisation as a strategy for strengthening relationships with the host government and to maintain influence and control over one of the most strategic sectors of the Kenyan economy (Jones, 2005; Jørgensen, 1975). It is an excellent example how what should be an inclusive process leading to inclusive outcomes for Kenyan nationals became a tool for exclusivity in the hands of powerful agents in a complex historical setting.

## 3.4 Years listed on the Nairobi Stock Exchange (1971-2008) and beyond

### *3.4.1 1971-1992*

The 1970s and the 1980s mark the rapid expansion of the Kenyan tea sector (Figure 8) and 1992 marks a watershed year in Kenya – its first multi-party election after the one-party era and, subsequently, the active pursuit of economic liberalisation following the Structural Adjustment Programmes (SAPs). The Kenyan political scene of the 1970s and the 1980s was one of power centralisation, after a ban of opposition parties introduced in 1969. In 1978, Kalenjin Vice-President Daniel arap Moi succeeded Jomo Kenyatta as president and changed the Constitution making Kenya a one-party state (Booth et

[154] As stated at the beginning of the chapter, for simplicity I refer to the newly formed company as BBK.

al., 2014). In terms of economy, after the rather positive economic growth during the first decade of Kenya's independence, during the 1970s and the 1980s, Kenya's economic performance worsened. It was affected significantly by the global oil shocks of 1973 and 1979, the collapse of the East African Community (EAC) in 1977, an attempted coup in 1982 and severe droughts in 1983/1984 and again in 1991/1992. In addition, major mismanagement of the 1976/77 coffee boom led to balance of payments problems that forced Kenya to seek conditionality finances from the Bretton Woods institutions. SAPs were implemented as of the mid-1980s but rather slowly and with a lack of transparency. Consequently, Kenya was cut off from aid in 1991 (and between 1991 and 1993) when development partners started to focus more on governance as a pre-condition for aid. Consequently, President Moi was under pressure to reinstate multi-party democracy. Liberalisation reforms accelerated in preparation for the first 'multi-party' election in 1992 (Mwega & Ndung'u, 2004).

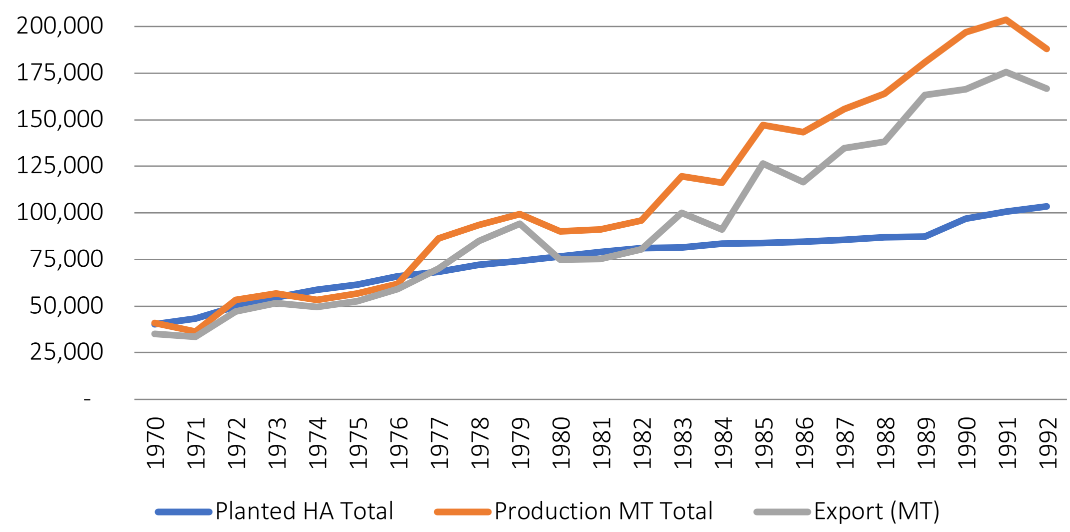
The two decades prior to liberalisation were difficult for BBK. The Kenyanisation policy and growing importance of KTDA and smallholder tea farmers challenged the dominant position of the company in Kenya. In 1972, pressure was successfully exerted on the Kenyan government by a group of 'private individuals' (who later invested in the private cultivation of tea outside the smallholder system) to limit the possibility of expansion of the tea estates. This restriction allowed the domestic bourgeoisie to reduce the level of protection of MNCs while simultaneously upholding the decision to put tea growing more firmly in their hands.[155] As a result, the government prevented BBK from buying further agricultural land in Kenya (Mohan, 2018; Swainson, 1977, 1980). By 1975, Kenya's Treasury increased its share in BBK to approximately 20% (Swainson, 1980) and a number of British BBK board members, including the chairman, were replaced by Kenyans (Brooke Bond Liebig Ltd., 1973, 1975, 1976). Moreover, the area under tea cultivation more than tripled between the 1970s and 1990s (Figure 8) and by 1988, smallholders outperformed the estates in terms of tea production (Figure 9). This rapid expansion in cultivation area and production was not, however, accompanied by a productivity increase of the smallholder tea farms (Figure 10), while the commissioning of KTDA tea manufacturing factories also lagged behind the rate at which new smallholder tea areas came into production during the 1980s. Congestion at the green leaf buying stations led to crop loss, while the overloaded manufacturing capacity of some factories had a negative effect on the quality of the final product, which further translated into lower market prices (Wallis, 1997).

In response to the constraints imposed by the government on the expansion of tea estate land, BBK focused on research to improve estate productivity, acquisition and further diversification of their portfolio. With supported research, the company continued to increase productivity, which was substantially higher than productivity of the smallholder farmers (Figure 10 and Annex 5). In terms of diversification, in 1973, BBK opened the first instant tea factory in Kenya. Kitco Instant Tea Factory was situated in Kericho and was equipped with state-of-the-art equipment developed in and brought from the UK (Brooke Bond Liebig Ltd., 1973; Swainson, 1980). In 1975, Kenya Fishing Flies was closed due to low profitability (Brooke Bond Liebig Ltd., 1975). In the same year, BBK bought a 52% stake in one of the oldest tea estates (established in 1925), the Limuru Tea Company Limited (Wahome, 2006). It was not, however, a land acquisition as had been the case for previously acquired tea estates. After the purchase, Limuru Tea Company Ltd. became an outgrower of green leaf to BBK's Mabroukie Factory for manufacturing; the product was sold via BBK's selling division in Mombasa (Brooke Bond Liebig Ltd., 1976). BBK became the managing agent for the estate, manufacturing and selling operations (Limuru

[155] This move could also have been aligned with developments on the international tea market. In September 1972, the Food and Agriculture Organisation convened an Intergovernmental Group on Tea, which proposed quotas for exports of black tea based on official estimates of export availability. The group agreed that exporting countries would adjust their exports of black tea so as not to exceed these figures. This market regulation did not constrain Kenya, as during four years covered by these restrictions, it exported only 92% of the initially agreed export quota (Wallis, 1997).

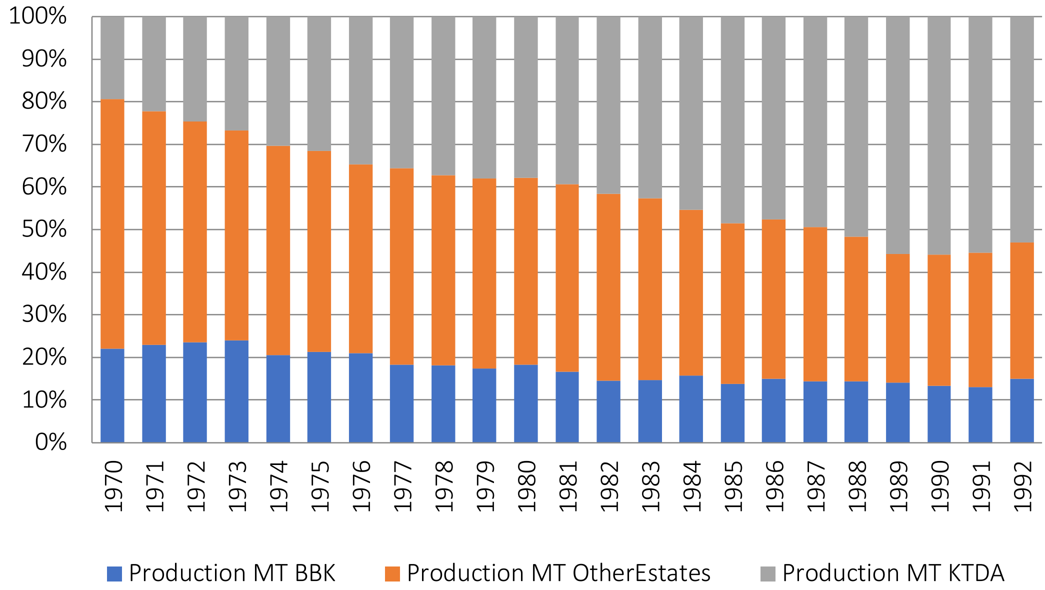
Tea Company Ltd., 1999). Institutionally, Limuru Tea Company Ltd. remained an independent subsidiary of BBK and has been listed separately on the Nairobi Stock Exchange since 1967[156] (Kibuthu, 2005).

Figure 8. Tea production, export and planted area between 1970-1992




Source: Own elaboration based on (KNBS, 1971-1994)

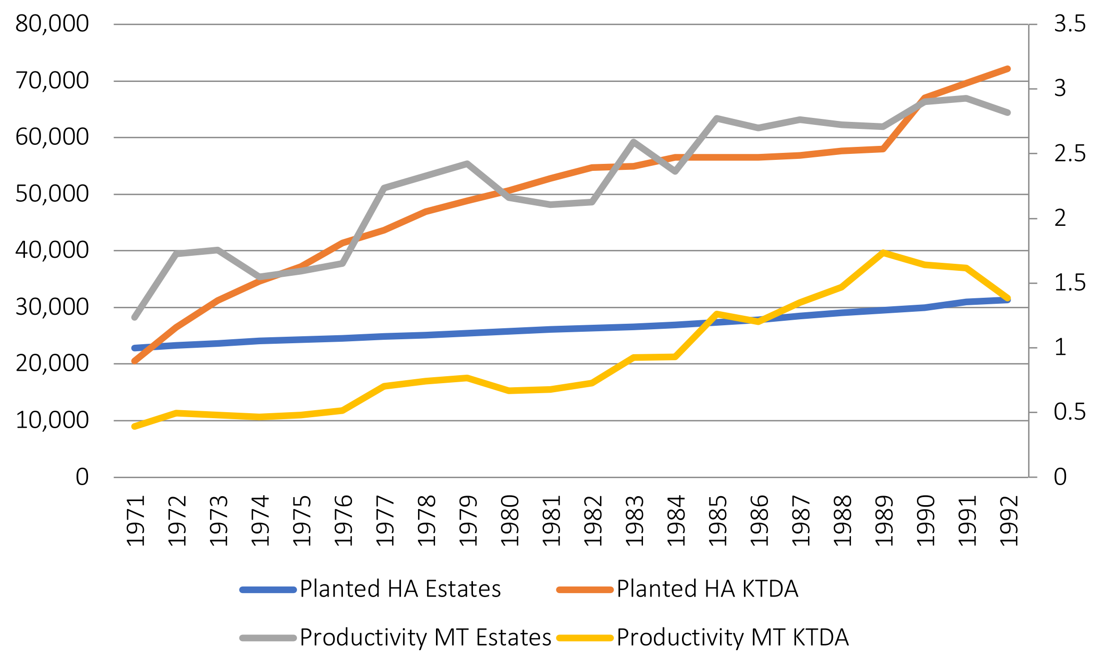
Figure 9. Share of the total tea production between BBK, other estates and smallholder tea farmers (KTDA) between 1970-1992




Source: Own elaboration based on (KNBS, 1971-1994)

[156] Limuru Tea stocks are among the least traded on the Nairobi Stock Exchange due to the low number of shares and a very high market price. Very few shareholders are willing to sell their shares, not least because of the company's very generous dividend policy (Wahome, 2006).

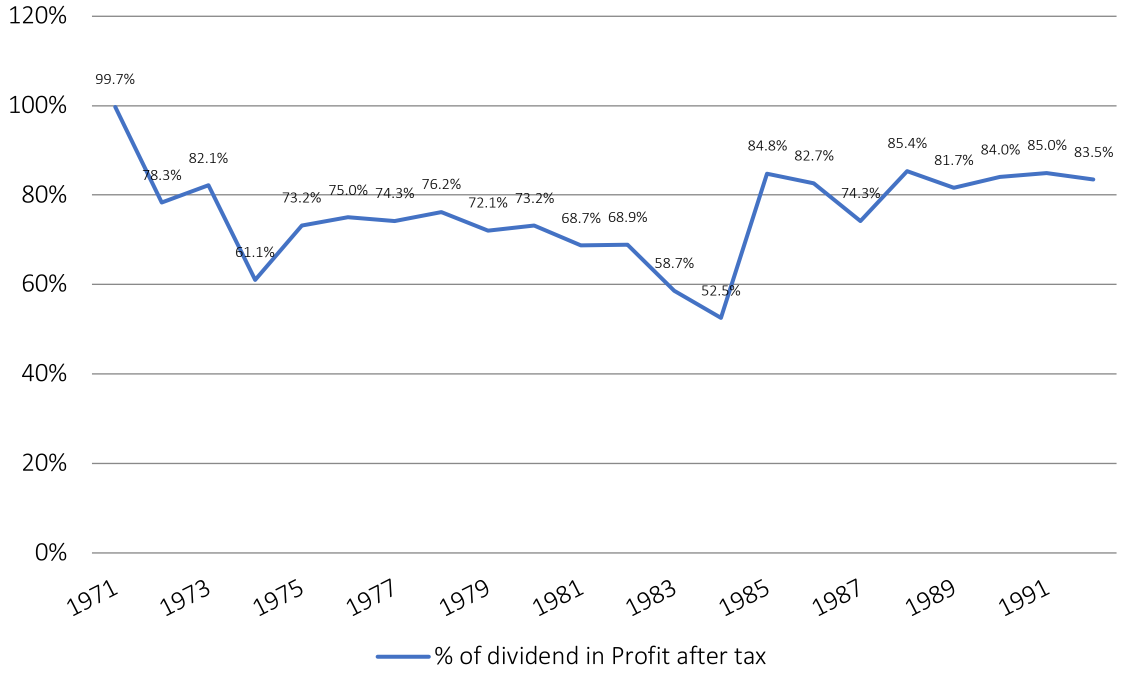
Figure 10. Tea planted area and productivity per estates and KTDA between 1970-1992




Source: Own elaboration based on (KNBS, 1971-1994)

Another strategy of multinational companies in response to Africanisation was to substantially increase their dividend payouts (Uche, 2012). A similar strategy was initially adopted by BBK who, throughout its operations, adapted a rather active dividend policy (Figure 11). It meant that a large share of their post-tax profit was paid out in the form of dividends. As the mother company owned the majority of BBK's shares, this strategy was largely profitable for the Group, while at the same time it kept the local shareholders satisfied. Through the decades, BBK operated with a substantial profit, although a decrease from 1977 onwards is noticeable in Figure 12. The lower margins and decreased dividend payouts between 1972 and 1984 were also a result of a number of developments and acquisitions in the said period, as well as a number of substantial investments that BBK made in infrastructure upgrade and organisation.

Figure 11. Dividend policy expressed as a percentage of dividends in the total profit after tax 1970-1992

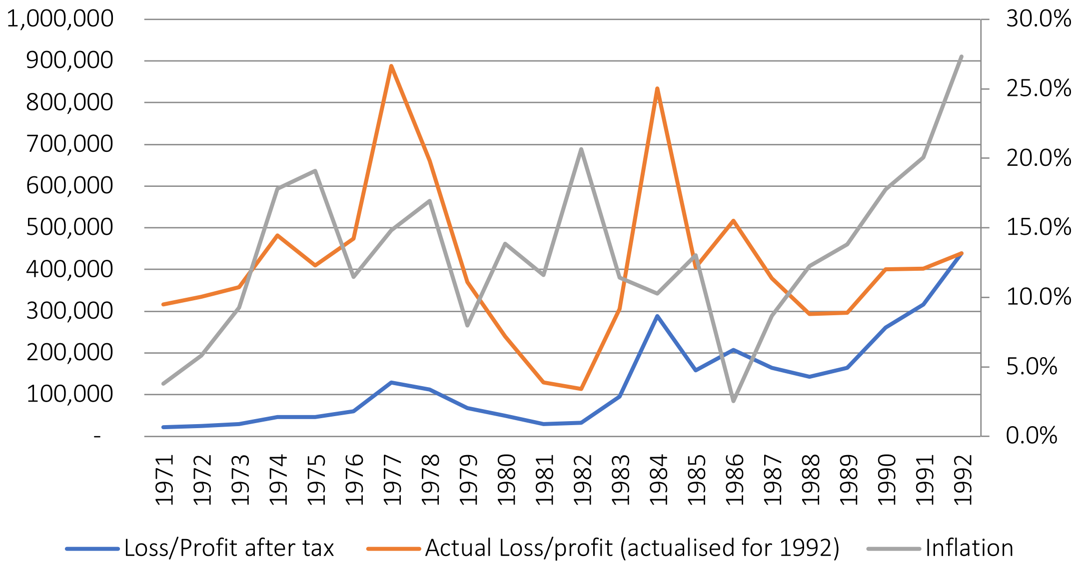



Source: Own elaboration based on (Brooke Bond Kenya Ltd., 1984, 1985, 1987-1990, 1992, 1993; Brooke Bond Liebig Ltd., 1973, 1975-1980)

As a producer of agricultural produce for export, BBK operations were highly dependent on weather conditions, global commodity prices, exchange rate fluctuations, as well as a number of other factors on the global and national level. Between 1976-77, during the coffee boom, international tea prices reached their peak as well before plummeting in 1978-79 (Brooke Bond Liebig Ltd., 1976, 1977). On the national level, BBK experienced an average increase in production costs of 11% per annum between 1973-77, as well as a substantial increase in input prices (Brooke Bond Liebig Ltd., 1973, 1975-1978). The global economic crisis of 1979 and attempted coup d'état in 1982 did not serve the Kenyan economy well. Also in 1989, it was marked that BBK's products were subject to a number of new levies and cesses,[157] which negatively affected production costs (Brooke Bond Kenya Ltd., 1990). A major blow to BBK's profits, however, took place in 1977, when KTDA finally took over BBK's entire, highly profitable, marketing arrangement, including distribution of tea in the local market. This takeover deprived BBK of a substantial source of profit (Figure 12) and yet again indicated the strength of the indigenous bourgeoisie and the on-going nationalisation in the country.

[157] For instance, airfreight costs were affected by the government tax on aviation fuel (Harris, 1992).

Figure 12. BBK profit after tax 1971-1992 (nominal value of profits, as well as actualised value for 1992, in Sh '000)




Source: Own elaboration based on (Brooke Bond Kenya Ltd., 1984, 1985, 1987-1990, 1992, 1993; Brooke Bond Liebig Ltd., 1973, 1975-1980) and (International Monetary Fund, n.d.)

KTDA and the tea industry in general was increasingly considered an attractive investment avenue for many farmers, while the Kenyan bourgeoisie and political elites increasingly owned large tea estates and held important posts within KTDA. It is also important to consider that tea-growing regions (former Central and Rift Valley Provinces) are electoral strongholds of two of the most important political figures during the period under investigation: presidents Kenyatta and Moi. Development of tea in these two regions was therefore important for political and ethnic reasons (C. M. O. Ochieng, 2010). As mentioned earlier, in the initial phase of KTDA development, BBK played an important and active role as one of the KTDA managing agents and as a major processing, manufacturing, marketing and retailing agent for tea. BBK also provided their personnel and know-how in establishing and managing smallholder tea factories. However, a new large extension programme by KTDA, implemented and sponsored by CDC, the World Bank and the West German Development Agency, envisioned the construction of 22 new factories between 1974-78.[158] These factories were to be operated independently by KTDA, with minimum initial support from the estates (Swainson, 1980). At that time, the board and the management of KTDA were still dominated by the representatives of government, the CDC (up to 1985) and multinational tea companies, with actual smallholders in an 'advisory role', exercising minor ownership and management rights, but the power relations were about to change.

There was internal discontent among the Kenyan tea farmers with the rate at which the multinational companies were proceeding with the Kenyanisation process within the management of KTDA and its factories. By 1973, in 15 factory companies owned by the KTDA, there was only one African factory manager[159] (C. M. O. Ochieng, 2010). Smallholder farmers perceived producer prices to be low and service charges and managing agency fees as excessive or exploitative (Swainson, 1980). As described in the previous section, BBK had held a monopoly on the marketing and distribution of tea in the local market for years. This arrangement, known as the 'pool', comprised of 35 tea producer companies –

[158] It was in line with the Kenya's Development Plan for 1974-78 that expected tea expansion to play a major role in improving the distribution of rural income by obtaining a significant increase in the proportion of farmers who obtain a cash income from their land (Taylor, 1967).
[159] Naftali Wachira had been successfully running Ragati Tea Factory (C. M. O. Ochieng, 2010).

including BBK and most of the KTDA factory companies, who, along with the estates, sold 10% of their monthly tea production to BBK's factory in Kericho. BBK – in their capacity as packers and sellers of tea for the 'pool' – blended and packed the local tea under its own label and sold it on the local market. Moreover, the rest of the smallholders' and other estates' tea (packed and marketed by BBK) was either sold via the Mombasa auction or via the London auction – where the BBK's mother company could again easily buy it[160] (Brooke Bond Liebig Ltd., 1976, 1977; Swainson, 1980). BBK's privileged position within the sector started to draw attention of national politicians. In the early 1970s, two MPs introduced a motion during a parliamentary debate on the CDC loan for the KTDA extension programme calling for the KTDA to be turned into a public liability company and its activities decentralised to give smallholders greater say in its affairs. This motion was rejected but more MPs became increasingly vocal through the 1970s, demanding changes in the corporate governance of the KTDA (C. M. O. Ochieng, 2010). In the second half of the 1970s, profits from the local tea market decreased as wholesale and retail prices were controlled as a scheduled item under the outdated Price Control Act from 1970. Faced with increased production costs and a substantial rise in global tea prices in 1977, KTDA withdrew from the 'pool' for several months to sell their tea directly on the export market (Swainson, 1980).

Finally, despite British political pressure, which was applied on behalf of BBK on the Kenyan government, a 'coalition' between smallholders, the Kikuyu KTDA General Manager Charles Karanja and a section of MPs succeeded in pressing President Kenyatta to support the KTDA's takeover of the 'pool' agreement from BBK. The patron–client nature of Kenyan politics, based on an ideology of ethnic competition, led to a situation where the political leaders would look more kindly on ideas brought forward by some trusted individuals as long as the outcomes were not inconsistent with political and ethnic interests. This was exactly the case with this KTDA takeover of the 'pool' arrangements. Despite an initial rejection of the Karanja's 'pool' takeover proposal by the Ministry of Agriculture, who sided with the CDC, the World Bank and MNCs, Karanja used his personal relationship to take the matter directly to President Kenyatta. Kenyatta overruled his minister and gave his personal approval for the KTDA to move into tea manufacturing, processing and marketing. He wanted it to be the key example of a successful Kenyanisation programme in one of the key economic sectors in the country (cf. Leonard, 1991; C. M. O. Ochieng, 2010). This decision fundamentally changed the relationship between the KTDA and the multinational tea companies and it accelerated Africanisation within the KTDA. A new parastatal – the Kenya Tea Packers Ltd. (KETEPA) – was set up in 1978 under KTDA's control, giving it a monopoly on tea packaging and distribution in the domestic market until 1992 (Bedford, Blowfield, Burnett, & Greenhalgh, 2002; Hornsby, 2012; cf. Leonard, 1991; cf. C. M. O. Ochieng, 2010).[161] By the end of the 1970s, all senior posts within the KTDA were held by Africans (Leonard, 1991). This takeover also allowed KTDA to reduce costs and increase profit margins by capturing upstream and downstream profits (C. M. O. Ochieng, 2010).

Finally, in 1986, the government established a new parastatal, the Nyayo Tea Zone Corporation, to produce tea from farms inside forest reserves. The goal of the tea zones was to create a 100-metre natural buffer strip of tea between peasant producers and forests, reducing encroachment on the remaining forests and providing jobs. However, the KTDA was not consulted regarding the decision. The new parastatal developed 17 boundary tea estates throughout the highlands over the next few years, from Mount Kenya to the Ugandan border. Tea production rose, but there were protests that the zones were undermining prices due to a suboptimal plucking standard caused by the shortage of

[160] This arrangement had advantages for Broke Bond International as it could buy a substantial quantity of raw tea from KTDA farmers without directly employing the farmers and thereby avoiding labour costs and disputes (Currie & Ray, 1987).

[161] Soon after, the government took KETEPA away from the KTDA and made it independent (Leonard, 1991). Consequently, KETEPA became jointly owned by members of the Kenya Tea Growers Association and the KTDA (Wallis, 1997). In 2008, BBK was among the major shareholders with its 38 processing factories (KETEPA, 2018).

labour and that there were too few KTDA factories to process the new tea. The Nyayo Tea Zone project is considered to be highly politicised. It is managed directly by the Office of the President and its head was Kalenjin ex-provincial commissioner and Moi loyalist Isaiah Cheluget. Some anti-government activists claimed that its establishment aimed at weakening control of the tea industry by (mainly Kikuyu) smallholders. The tea zones' mixed mandate of agricultural production and ecological protection proved difficult to maintain, but it remained self-financing (Hornsby, 2012; Wallis, 1997). These events show how coincidental convergence of interests between smallholders and ethnic politics played a critical role in helping advance smallholder interests at critical points in time. At the same time, it fundamentally changed the relationship between the KTDA and BBK and forced BBK to further diversify its portfolio.

After the 'pool' takeover, some major developments took place within BBK. In 1978, it acquired a majority stake in Sulmac Company Limited and took full ownership of Murphy Chemicals (East Africa) Limited from Glaxo Holding Limited. Sulmac's operations were focused on carnation growing in Naivasha, a chrysanthemum and vegetable project at Masongaleni, and a sisal plantation in Kibwezi.[162] Murphy was a well-known company specialising in pesticides and other agricultural chemicals. Both acquisitions broadened the agricultural and extension base of BBK and provided additional jobs for several thousand workers. In 1979, BBK moved their headquarters in Nairobi to Norfolk Towers to incorporate all the group activities under one roof, including administration of the recently acquired Sulmac. It is worth mentioning that BBK also had a financial interest in Norfolk Towers. A year later, another major investment was decided for its newly acquired company: construction of a new production plant for Murphy Chemicals to manufacture locally. In 1980, BBK also opened a new warehouse in Mombasa. 1984 was a pivotal year for BBK as profits rocketed (Figure 12). There was a number of factors that contributed to such epic results, but the ideal weather conditions and bumper crop of tea and flowers were key. Pakistan became a new importer of BBK tea and quickly became the major export destination. Murphy opened a new factory and started local production of products that were sold mostly regionally. BBK also sold its Masongaleni farm to the government. Finally, it was a year when BBK was acquired by the Unilever Group (Brooke Bond Kenya Ltd., 1984, 1985; Brooke Bond Liebig Ltd., 1973, 1975-1980).

In 1984, a British-Dutch conglomerate – Unilever Group – acquired the Brooke Bond Group to strengthen Unilever's worldwide positions in tea and other foods (Unilever, 1984). The origins of much of Unilever's tea business lay with the legacy of the tea group built up by Scottish-born Sir Thomas Lipton in the late nineteenth century. Unilever, which had a successful laundry soap affiliate in the United States, made an initial investment in T.J. Lipton in 1936 and acquired almost all the equity in 1943 as part of a wartime strategy to expand its food business. During the 1970s, Unilever expanded its tea business geographically by buying up independent Lipton agencies in various countries and by

---

[162] Sulmac was probably the most successful and timely acquisition of BBK. The late 1970s and the 1980s were the time for the development of the flower sector in Kenya, with limited competition mostly from other multinational companies (Kazimierczuk, Kamau, Kinuthia, & Mukoko, 2018). Sulmac was initially growing carnations and some chrysanthemum for export to Germany. With time and major investments in infrastructure, particularly on the Naivasha farm, Sulmac diversified into growing roses (as of 1986) and opened a commercial production of Standard Carnations at Kibubuti in 1990. In relation to growing production and export of flowers in the late 1980s, Sulmac invested in its cold storage capacity to better handle (progressively more important) roses, as well as added storage capacity at the Nairobi International Airport (JIKA). Rose growing at the time was increasingly problematic due to restricted importation of the planting material. In 1989, the Chairman expressed his concerns regarding impeded access to new rose varieties that negatively impacted the competitiveness of Kenyan flowers on the global market (Sulmac increasingly started to export to the UK and the Netherlands). He highlighted the importance of Kenya becoming a signatory of the International Union for the Protection of New Varieties of Plants (UPOV). An additional challenge specifically related to flower export was the availability and costs of freight for such perishable cargo due to high aviation fuel costs in Kenya (Brooke Bond Kenya Ltd., 1990, 1991). Read more about the flower sector in Kenya in Chapter 4.

acquiring other tea companies. By 1982, Unilever estimated it held 17% of the world black tea market, but it was not yet well integrated in the British market. There was an internal discussion concerning the potential acquisition of Brooke Bond in 1973 but it was decided not to pursue. In 1983, the idea resurfaced and, prompted by rumours of an impending takeover, Unilever finally launched a bid for the hostile takeover of the Brooke Bond Liebeg Group. Until the takeover of the Group, Unilever's integration of their newly acquired companies was usually slow and minimal (often involving little more than a standardisation of accounting). The Brooke Bond Liebeg Group experienced a rapid absorption and restructuring of core and non-core elements. By 1986, the international tea buying, trading and other activities of Brooke Bond and Lipton were merged into a Central Tea Group; Brooke Bond's head office had been moved into Unilever's London head office; and only one former director was still employed. By 1990, Unilever had consolidated its position as the world's largest tea company. While in 1970 tea represented around 1.7% of Unilever's total turnover, by 1990 it had grown to 4% of the total turnover, and 7% of Unilever's total profits (Hensmans, Johnson, & Yip, 2013; Unilever, 1984).

As a result of the hostile takeover of the Brooke Bond Liebeg Group, Unilever took over the Kenyan subsidiary. For the time being (until 2004), Unilever maintained the name 'BBK' for its Kenyan acquisitions. The acquisition resulted in a reshuffling of the business portfolio in Kenya too. BBK de-invested from Murphy Chemicals (East Africa) Ltd. and Kabezi Canners Ltd in 1986 (Brooke Bond Kenya Ltd., 1987). The chairman of the BBK board characterised the years between 1985 and 1990 as a period with a good investment climate in the country, which also marked the beginning of the liberalisation process. By 1990, BBK still held 52% of shares in Limuru Tea and 100% in Sulmac and Kitco. The company also owned seven 'dormant subsidiaries' – all related to the production, manufacturing and marketing of tea.[163] A major investment was completed in 1990 – the Tagabi hydroelectric project – which made the entire Kericho estate self-sufficient in terms of power generation (Brooke Bond Kenya Ltd., 1985, 1987-1993). It was a strategic investment that would allow BBK to save substantial costs on energy bills but, more importantly, to become independent from unreliable and expensive power generated by the state-owned Kenya Power. Furthermore, 1992 was an important year as the Mombasa tea auction denominated its tea prices in US dollars – a move that was beneficial for an export-oriented company like BBK. BBK took advantage of it to further expand and professionalise. BBK's factories got new upgraded machinery and their area was extended to increase the capacity of the production line. BBK continued planting clonal tea on the area of the estate previously used to grow cinchona. Substantial resources were deployed to continue research and development of new agronomic and processing techniques for increased productivity. The technological advancements were, however, not favourable for the plantation workers, who, in some instances, have been replaced by tea plucking machinery.

#### *3.4.1.1 BBK and employment*

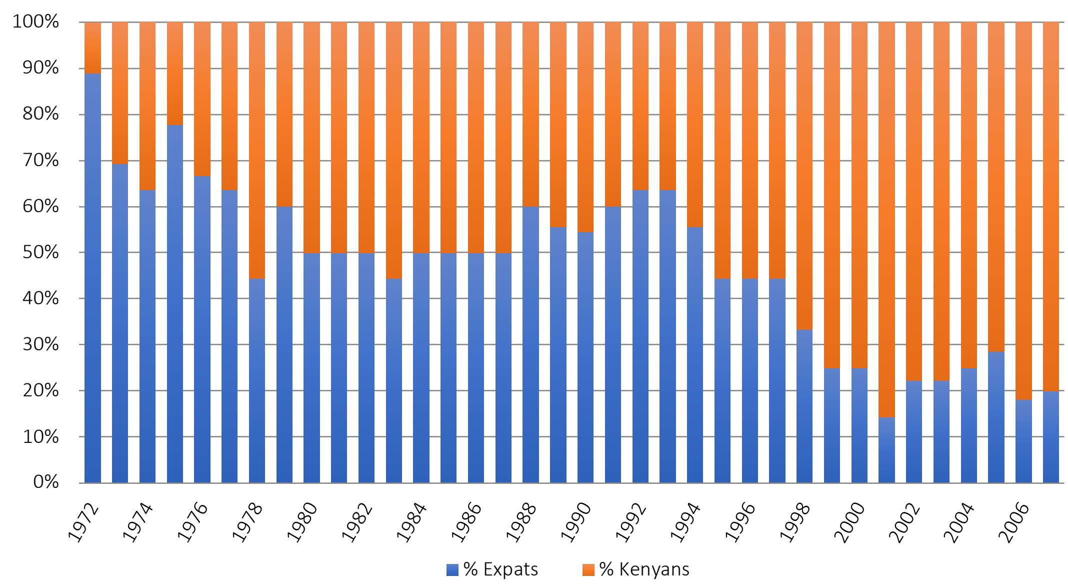
The 1972, an ILO Mission to Kenya highlighted tea as a cash crop well suited to an employment orientated strategy of economic development (ILO, 1972; cf. Leys, 1973; cf. Tyler, 1977). BBK has always been one of the largest employers in the country, with the majority of staff being hired as plantation workers. The exact number of people hired by BBK has not been reported on a regular basis. It is known, though, that, in 1971, BBK hired approximately 14,000 people, while by 1992 this number had grown to 21,319. There are few details regarding employment in the company's Annual Reports, apart from the general praise of the staff by the chairman and a few additional remarks. For instance, in response to the pressure put on multinational companies by the on-going Kenyanisation in the early 1970s, there was a general dissatisfaction expressed about the lack of more qualified indigenous staff, such as accountants. BBK reported through the years that the Kenyanisation of their human resources was

[163] Mabroukie & Coffee Estates Limited, Kenya Tea Blenders Limited, Brooke Bond Mombasa Limited, The Buret Tea Company Limited, Migaa Estates (1964) Limited, Waitangi Estates (1964) Limited, Gakomo Estates (1964) Limited.

progressing and substantial resources were used for training but that the withholding of a number of expatriate staff remained necessary. The priority was given to training indigenous managers. In 1978, BBK opened and ran its own management and technical training school. In 1988, the company started a new training initiative in conjunction with Silsoe College in the UK. This new three-year management programme for all BBK managers was held in BBK's International Training Centre in Kericho for their Kenyan employees, but also for the managers from Unilever branches in Malawi and Tanzania. A number of promising Kenyan managers were sent on visits or to work in other BB/Unilever companies in the UK, India and other parts of Africa. The proportion of indigenous staff in the ranks of BBK increased.

A number of Kenyans also occupied key positions in the structure of the company, such as executive directors and non-executive members of the board. The Kenyanisation wave saw a shift away from British directors and their gradual replacement is particularly visible in the second half of the 1970s. Between 1978 and 1987, Kenyans occupied 50% of board seats and their involvement increased again as of 1995 (Figure 13). Within the board, we can observe a few names known to be members of the nascent Kenyan bourgeoisie, with the majority coming from Central Kenya. A similar ethnic bias was noted with regard to most of the management and supervisory positions within the company (Van der Wal, 2011). Between 1976 and 2008, Kenyans also held the position of Chairman of the Board. The first Kenyan chairman, N.J. Muriuki, who held the office between 1975-1983, came from the Kikuyu ethic group, arguably one of the most influential ethnic groups in Kenya and, indeed, the same ethnic group of the then president, Jomo Kenyatta. The second chairman, who, to date, held the office for the longest period (1981-2002), came from the Kalenjin ethnic group – again a group aligned with the president at that time. BBK did not, however, hand over the day-to-day management of the company to indigenous management and, throughout the years, it has always had an expat in the position of Managing Director (Table 2).

Figure 13. Share of the Board Seats between Expatriates and Kenyans 1972-2010




Source: Own elaboration based on company Annual Reports 1973-2007

Table 2. List of BBK Managing Directors and Chairmen of the Board 1971-2010

| Chairman of the Board | | | Managing Director | | |
|---|---|---|---|---|---|
| Years in the office | Name | Nationality/ Ethnic Group | Years in the office | Name | Nationality/ Ethnic Group |
| ………-1972 | O. Brooke | British | ………-1972 | O. Brooke | British |
| 1973-1975 | L.A.S. Grumbley | British | 1973-1975 | L.A.S. Grumbley | British |
| 1975-1981 | N.J. Muriuki | Kenyan/ Kikuyu | 1975-1977 | F. Gerken | British |
| 1981-2008 | W. K. Martin | Kenyan/ Kalenjin | 1977-1983 | R. G. J. Ballard | British |
| 2009-…….. | E. De Foresta | French | 1983-1987 | D.C. Bensley | British |
| | | | 1988-1989 | A.H.L. Padfield | British |
| | | | 1989-1996 | J.A. Wood | British |
| | | | 1997-2000 | P.J. Stanning | British |
| | | | 2001-2010 | R.A. Fairburn | British |

Source: Own elaboration based on company Annual Reports 1973-2010

Most job opportunities for the local population were provided on the BBK's tea and coffee plantations, as well as on the flower farms. Initially, less attention was paid to the professional development of this segment of the workforce. BBK did, however, agree to form a workers' union as early as 1954 and invested substantially in the infrastructure for their plantation workers. They built new houses for estate employees (although the housing conditions were often criticised) and schools for their children. It was also a way to attract more labour, as there were years when staff shortages were problematic. In 1972, BBK launched the staff magazine BBLK NEWS to maintain and improve communication and morale within the company; and in 1989 they started to give long-service awards for their most loyal employees. Over time, more staff were allowed to participate in formal training courses. However, despite good profits from tea exports, tea estates continued to pay very low wages and a practice of hiring casual labour on short-term contracts persisted (Langdon, 1981; Ogolla, 2015). In 1977, as a result of negotiations between BBK and the relevant trade union,[164] wages for plantation workers increased twice during the year (Brooke Bond Kenya Ltd., 1984, 1985, 1987-1990, 1992, 1993; Brooke Bond Liebig Ltd., 1973, 1975-1980).

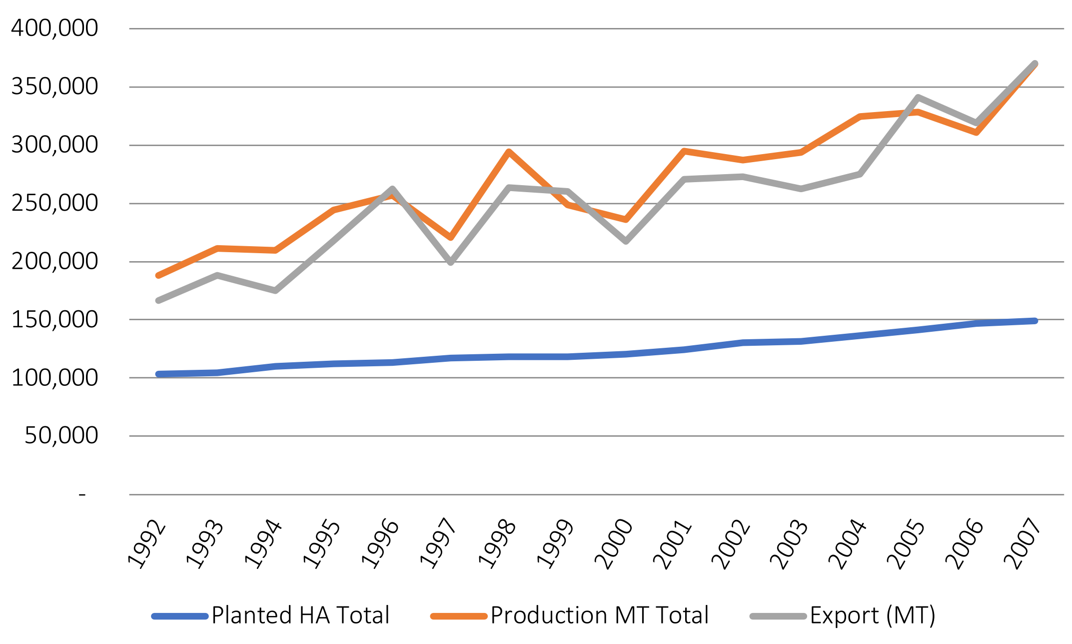
### *3.4.2 1993-2008*

The last decade of the 20th century and the first decade of the new millennium was a time of intensified economic liberalisation in Kenya and even greater acceptance of foreign investors. The liberalisation reforms introduced, among other things, a free exchange regime and the removal of barriers to foreign commercial private borrowings. They also provided a more enabling environment for foreign investors, but also facilitated the repatriation of dividends (Mwega & Ndung'u, 2004). In 2003, Kenya welcomed its new (Kikuyu) president - Mwai Kibaki. The focus of Kibaki's administration was economic recovery. He adopted a liberalised approach to the economy and provided space for people to engage in economic activities without major restrictions. The government also began to undertake major infrastructural programmes, such as building new roads and rehabilitating existing ones. Nevertheless, the presidential elections of 2007 were marred by violent protests with 1,300 deaths and 500,000 people displaced (Booth et al., 2014). This was a deeply traumatic event in the political history of Kenya and also affected the tea sector.

[164] In 1963, the Kenya Plantation and Agricultural Workers' Union (KPAWU) was formed as a result of the merger of the Tea Plantation Workers' Union, Sisal Plantation Workers' Union, Coffee Plantation Workers' Union, and the General Agricultural Workers Union (Leitner, 1976).

The tea sector, in the meantime, had matured and stabilised but was not free of challenges (Figure 14 and Figure 15). The increase in production by small-scale farmers (Figure 16) remain mainly due to expansion in hectarage rather than better agronomic and processing skills/technology (CPDA, 2008). In 2000, with increasing pressure from a new round of the World Bank's Structural Adjustment Programme, KTDA was privatized to improve the efficiency and management of tea production and the marketing of green leaf. However, by 2006, there were calls within the sector for the renationalisation of KTDA. Supporters of re-nationalisation argued that KTDA managers were not responsive to the dynamics of the industry, and allowed benefits to middlemen at the expense of small farmers; while tea earns a premium revenue for the state, farmers perceived that they got nothing in return (Amde, Chan, Mihretu, & Tamiru, 2009). In 2008, the Kenya Tea Industry Task Force, commissioned to look into the issue, finalised its report (Nation Reporter, 2008). The task force's report raised concerns by smallholder tea factories and KTDA about, among other things, poor corporate governance practices and operational inefficiencies (Mugambi, 2007).[165] Moreover, small-scale tea farmers were not well represented in KTDA, TBK and EATTA (CPDA, 2008). The directors who were meant to represent farmers were largely ineffective or compromised, while the elections for these institutions were highly politicized. The Kenya Union of Small-Scale Tea Owners (KUSSTO), mandated to operate in the whole country, had not been effective due to interference and vested interests, and its presence and activities have been restricted (CPDA, 2008). Furthermore, the marginalisation of women in the sharing of tea income was problematic. In the smallholder tea sector in Kenya, the majority of the tea pluckers were and are women. However, the income from tea is taken by men who, in general, are the landowners. Finally, the oversupply of tea in the global market led to lower prices. In 2007, most of the tea was exported, while the local tea market absorbed only 5% of the total production. Moreover, Kenya continued selling tea for blending and for adding taste in bulk to leading tea companies. These activities took place outside of Kenya. To this end, it is worth noting that Dubai is fast emerging as a key tea buying, blending and packaging centre for Kenyan tea (CPDA, 2008; Trade Mark East Africa, 2018).

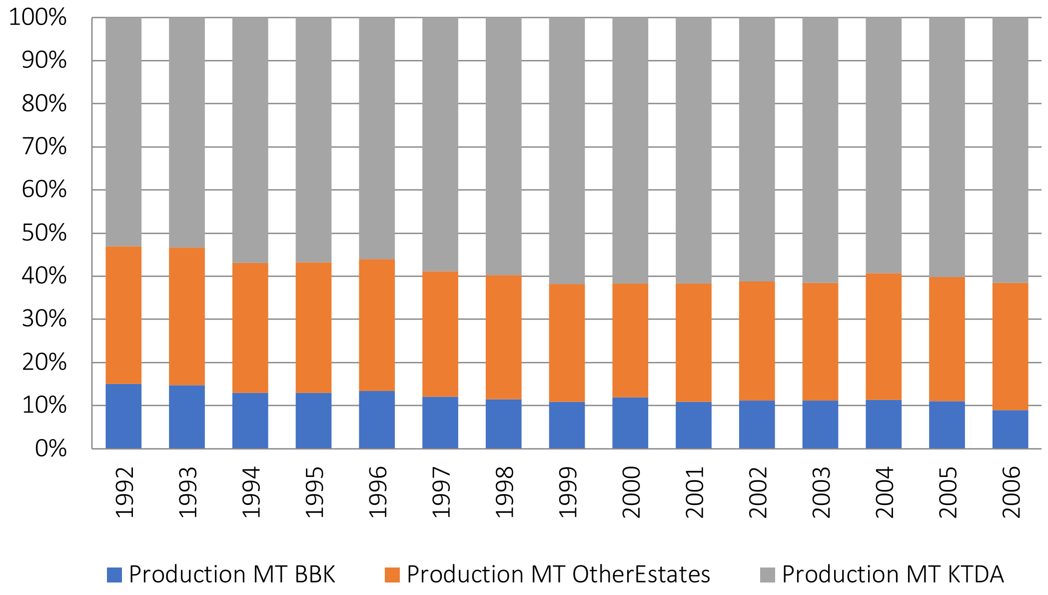
Figure 14. Tea production, export and planted area between 1992-2007




Source: Own elaboration based on (KNBS, 1994-2009)

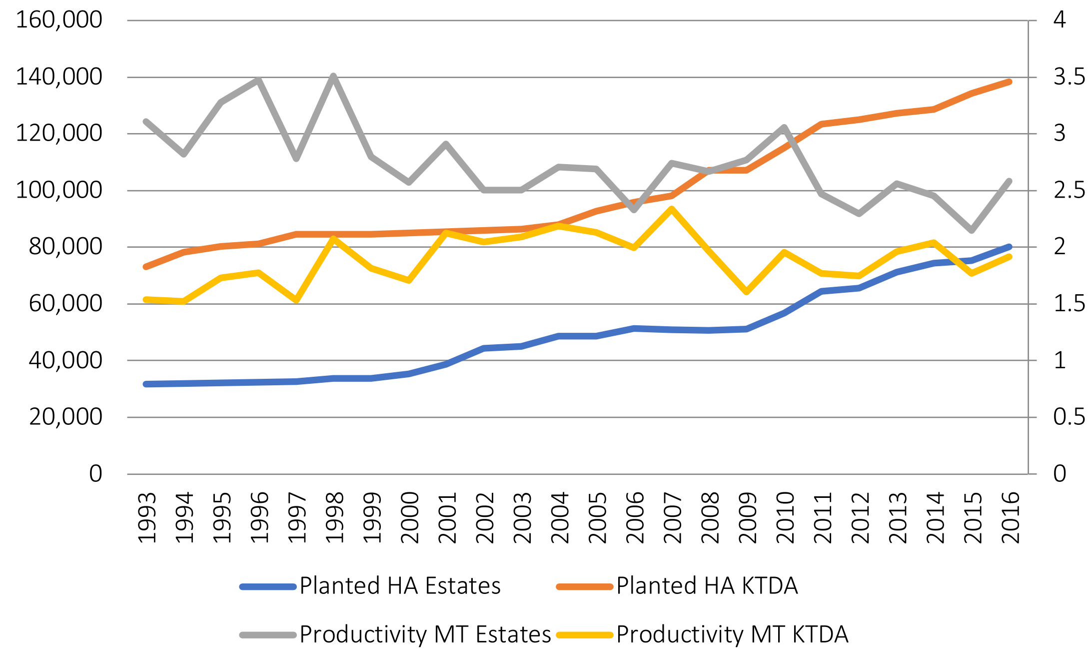
[165] The exact content of the report is not known, however. In 2018, small-scale tea farmers were still asking the government to release the findings of the Tea Taskforce (Njeru, 2018).

Figure 15. Share of the total tea production between BBK, other estates and smallholder tea farmers (KTDA) between 1992-2006




Source: Own elaboration based on (KNBS, 1994-2009)

Figure 16. Tea planted area and productivity per estates and KTDA between 1992-2016




Source: Own elaboration based on (KNBS, 1994-2018)

In this period, BBK restructured again. In 1993, it sold its sisal estate and in 1995, it made the decision to gradually withdraw from coffee production. The company made a strategic decision to focus solely on tea growing. This decision was fully implemented as of 2000 following the sale of Sulmac in 1998 and the complete phasing out coffee production (Figure 64, Figure 65 and Figure 66 in Annex 5) having finalised the sale of the last two coffee estates: Kibubuti Coffee Estate and Kentmere Coffee Estate in 1999. In 1996, their Mombasa trading operations were closed following the merger of BB Pakistan (the major customer) with its sister company Lever Brothers Pakistan. Two years later, the head office was moved from Nairobi to Kericho. In 2004, BBK officially changed its name from Brooke Bond Kenya Ltd. to Unilever Tea Kenya Ltd. (UTKL). This decision came 20 years after Unilever acquired BBK. It was an outcome of the policy changes of the mother company, which decided to include the Unilever name in all their products for greater brand recognition in line with their new mission established in conjunction with the 75th anniversary of the company's operations. Moreover, in 2004, the mother company introduced the 'One Unilever programme', a multi-country organisation structure to streamline the business, simplify decision-making and make Unilever's operating model more cost-effective (Unilever, 2003, 2004). In line with this programme, bringing multiple business units under a single operating structure within East and Southern Africa was the official reason for the company's delisting from the Kenyan stock market in 2007 (Institute of Developing Economies, n.d.).

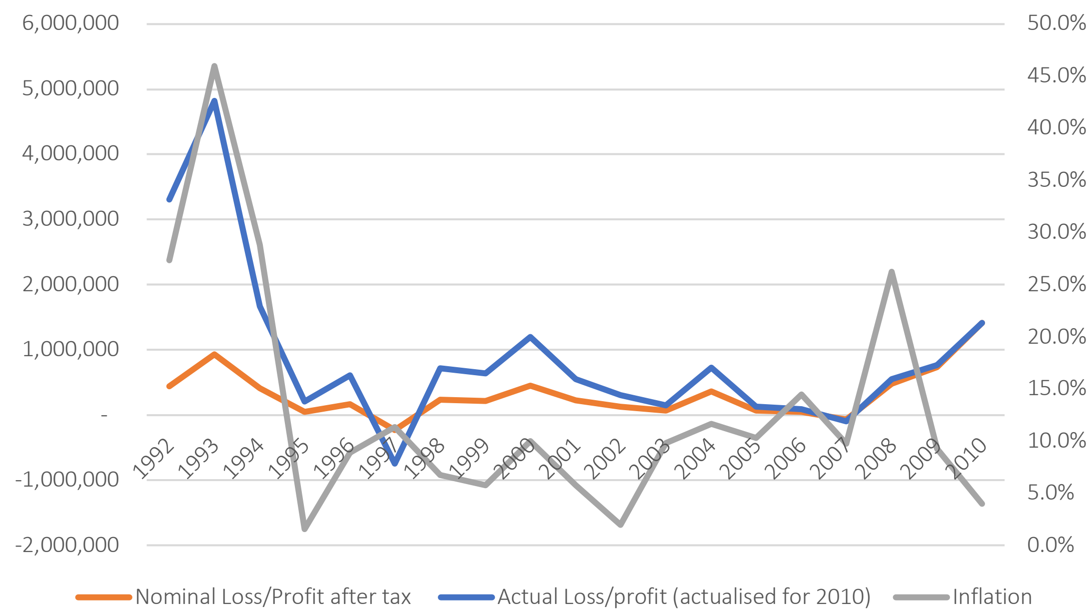
In 2007, a law passed that reduced the limit on foreign ownership (personal or corporate) of firms listed on the Nairobi Stock Exchange from 75% to 60%.[166] As a result of this legal adjustment and the changing strategy of the mother company to achieve a preferred wholly-owned structure within East and Southern Africa, UTKL's minority shares were bought by their main shareholder, Unilever Plc, through its subsidiary Brooke Bond Group.[167] Market analysts argued that the strategy was based on the need for fast decision-making and implementation within the company (Bonyo, 2008). As UTKL no longer met the legal requirement that all listed firms should have at least a 40% equity stake owned by local shareholders, it was subsequently delisted from the Nairobi Stock Exchange on 11 December 2008 (Anyanzwa, 2008). Obviously, the Kenyan authorities have accepted this move.

Throughout the years, BBK remained profitable, albeit with some seasonal fluctuations (Figure 17). It also continued its active dividend policy, especially as of 2002 (Figure 18). BBK welcomed the liberalisation reforms that brought in a new, more favourable business climate. For instance, a move to a single exchange rate, reduced inflation and a lower interest rate in 1993 was advantageous for an export company like BBK. Nevertheless, according to business circles, the Kenyan government did not do enough to completely ease the operations of the private sector. The 1990s were particularly problematic in terms of infrastructure shortages. Telecommunications, the road system and the energy infrastructure did not keep pace with the growing demands and, consequently, this generated additional production costs. The Kenyan export administration was struggling with inefficiency and most of the export businesses, predominantly in the flower export segment, but also BBK, complained about long delays in securing VAT refunds for exported products (cf. Kazimierczuk et al., 2018 and Chapter 4). 1997 was particularly difficult for the company's profit due to the devastating effects of El Niño that affected the entire agricultural sector. BBK was also negatively affected by the strong and stable shilling through the 1990s up until 2003, as well as a continuous increase in wages and the costs of borrowing and production throughout the period.

[166] As a result of the new law, several leading Kenyan firms – including Barclays Bank, Total Kenya and UTKL were closed to any new foreign investor participation (Institute of Developing Economies, n.d.).

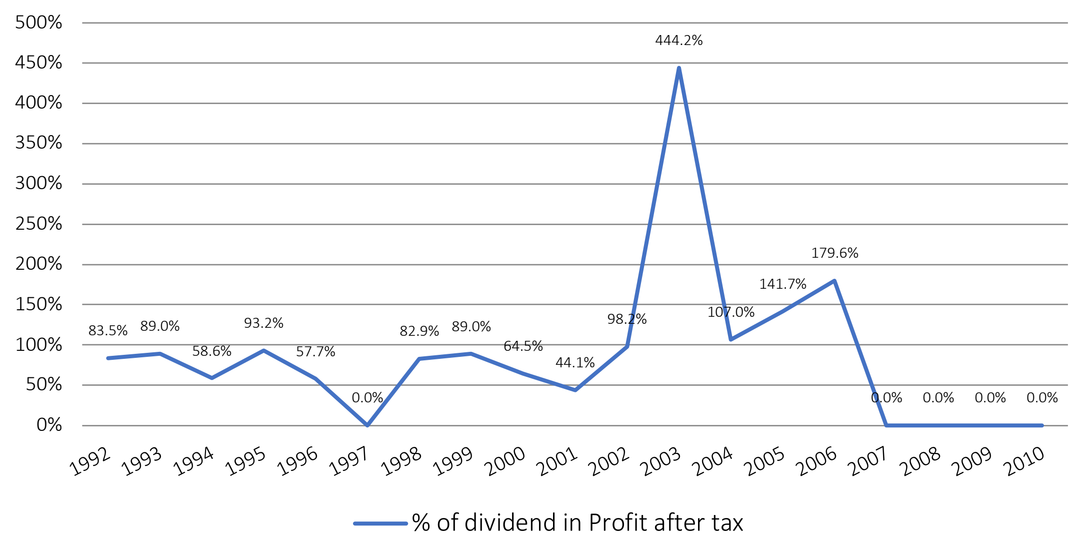
[167] Brooke Bond offered to pay KES 62 (US$ 0.79) per share for 5.75 million UTKL shares to increase its holding to 97.65 percent (Institute of Developing Economies, n.d.).

Figure 17. BBK/UTKL profit after tax 1992-2007 (nominal value of profits, as well as actualised value for 2010)[168]




Source: Own elaboration based on (Brooke Bond Kenya Ltd., 1993-2004; Unilever Tea Kenya Ltd., 2005-2009) and (International Monetary Fund, n.d.)

Figure 18. Dividend policy expressed as a percentage of dividends in the total profit after tax 1992-2007




Source: Own elaboration based on (Brooke Bond Kenya Ltd., 1993-2004; Unilever Tea Kenya Ltd., 2005-2009)

Unpredictable profits and exchange rates forced the company to introduce stringent cost control and major restructuring in 2002. The cost-saving restructuring included outsourcing of many of the services

[168] The significant increase in inflation in 2008 is attributed to post-election violence, a rise in exchange rates and rising overall food prices in the country (KNBS, 2009).

to other companies, reduction in the number of employees at both the management and plantation level and an increased focus on added value tea activities (like instant tea and flavoured tea). BBK increased its sales and marketing of blended teas from other producers. The company was also increasingly sourcing tea from local smallholders as of 2004. The tea from these outgrowers constituted 20-22% of the total production of the highly profitable blended tea segment (Brooke Bond Kenya Ltd., 1993-2003). In 2007, UTKL bought approximately 40% of KTDA's total production (Braga & Strebel, 2011).

The company's new strategy concentrated on the plant breeding programme (started in 1994 (Brooke Bond Kenya Ltd., 1995)), improved husbandry techniques, planting new high-yield tea varieties, as well as extending and redesigning production lines in tea factories to produce added value tea and focus more on manufacturing (Brooke Bond Kenya Ltd., 1999-2002). For instance, in 2002, the company released eight improved tea varieties for planting for which it was granted Plant Breeders Intellectual Property Protection (Brooke Bond Kenya Ltd., 2003). As of 2004, BBK focused the in-house plantation on higher yielding new varieties (Brooke Bond Kenya Ltd., 2002-2004; Unilever Tea Kenya Ltd., 2005-2008). The continued tea breeding programme was developing new and more sustainable varieties for UTKL's own use and to sell to suppliers and other growers. As for the added value products, in 2004, the company started the production of green tea products and in 2007, it launched some new green tea products in the EU and Japan, together with the first sales of Rainforest Alliance certified tea (Unilever Tea Kenya Ltd., 2005, 2008).

### *3.4.3 The Rainforest Alliance certification and Corporate Social Responsibility*

#### *3.4.3.1 The Rainforest Alliance certification and Farmer Field Schools*

Corporate Social Responsibility (CSR) is considered part of the private sector's contribution to the inclusive development. An important element of UTKL's CSR strategy was a move towards responsible sourcing. In 2007, UTKL became the first tea company in the world to obtain the Rainforest Alliance certification for sustainable tea production and committed to buying all of its tea from sustainable sources, preferably Rainforest Alliance Certified farms (Rainforest Alliance, 2018a; Unilever Tea Kenya Ltd., 2007).

As of 2006, UTKL has been increasingly involved in knowledge exchange with the smallholder farmers through Farmer Field Schools (FFS), jointly established with KTDA (and supported by a grant from the United Kingdom's Department for International Development, DFID). This extension method aimed to improve the sustainability of tea production by increasing the rate of adoption of good agricultural practices and to improve the profitability of smallholder tea producers (Mitei, 2011; Waarts, Ge, Ton, & Jansen, 2012). From 2005 to 2009, the UK's Department for International Development (DFID) financed 45% of the FFS extension programme. Unilever funds amounted to 35.5% and the KTDA's contribution was 19.5% (Braga & Strebel, 2011). It was further extended to support the smallholder farmers groups to obtain Rainforest Alliance certification. The FFS pilot proved costly but effective: the quality of the tea produced by the smallholders increased, as did the farmers' income (Braga & Strebel, 2011; Hiller, Brusselaers, & Ton, 2011; Hiller, Onduru, Davies, & de Jager, 2009). However, one of the criticisms of FFS states that the success of the pilot in capacity building and certification comes from the fact that it engaged frontrunner farmers, those smallholders that are most willing to experiment and innovate (Braga & Strebel, 2011). How to reach and include the late followers was the main challenge for the programme's scaling up,[169] which took place from 2008 onwards throughout the KTDA

[169] Due to high costs and labour-intensive coordination of the Farmer Field Schools, upscaling of the programme was focused on larger-scale training of the trainers programmes. The basic idea was that a handful of trained lead farmers would go on to train all other farmers supplying the factories (Mohan, 2018). As there has not been an

and with support of the Sustainable Trade Initiative (IDH), a Dutch organisation and the Netherlands Ministry of Economic Affairs, Agriculture and Innovation through the Royal Netherlands Embassy in Nairobi (Waarts et al., 2012). Unilever contributed further funding and other multinational tea companies quickly made commitments too. Between 2008 and 2010, five of the biggest tea buyers in the world committed to purchasing Rainforest Alliance-certified tea (Trustees of Princeton University, 2017).

Initially, one of the main incentives to participate in FFS and its certification scheme was the fact that Unilever originally paid a premium for all certified tea it bought from KTDA factories, roughly 5% on top of the tea's sale price.[170] Although not all smallholder farmers were always capable of complying with all of the requested certification standards,[171] the financial incentive worked well. In 2012, 57 KTDA factories were Rainforest Alliance certified (Stathers & Gathuthi, 2013) and by 2015, all KTDA factories had obtained this certification (Riisgaard & Okinda, 2018). Later, when more factories became certified, Unilever bought exclusively Rainforest Alliance certified tea, but it also stopped paying the price premium it had paid during the initial pilot project.

The premium mechanism worked as follows: Unilever paid a royalty fee of about US$12 to the Rainforest Alliance for each metric ton of tea sold with the certification label. Importantly, although the company sourced all of its tea from certified factories, only a small percentage of tea was sold under that label. Unilever used the Rainforest Alliance seal only in markets where they perceived it would be advantageous to do so. This choice also translated into a premium payment change to the KTDA, as it paid the premium only for tea it later labelled with the Rainforest Alliance seal. Ultimately, it translated into a small amount of additional money for the factories (Trustees of Princeton University, 2017). With the rolling out of FFS, nearly all tea sold was Rainforest Alliance certified. That also concerns the tea sold on the Mombasa Tea Auction, where many of the major buyers would bid only on certified tea. As a result, non-certified tea was often sold for lower prices than certified tea—irrespective of quality (Trustees of Princeton University, 2017). This naturally disadvantaged non-certified tea farmers, even if the quality of their product was high.

The choice of UTKL to source only from Rainforest Alliance certified farms should be considered strategic and had significant consequences for the sector. Indeed, it resulted in a number of above-mentioned (frontrunner) smallholders and other large tea companies adopting the practices to get certified (B. Ochieng, 2010; Riisgaard & Okinda, 2018; Stathers & Gathuthi, 2013). Nevertheless, the overall impact of certification, as in the flower sector (see Chapter 4), is hard to assess, especially given that 'compliance' does not necessarily translate into desirable 'impact' (Stathers & Gathuthi, 2013). Stathers & Gathuthi (2013) reported that the Rainforest Alliance certification preparations contributed to increased awareness among the estate workers of their rights. It also led to some improvements in workers' housing and reduced crowding in houses to some extent. However, at the same time, there is an observable trend of decreasing numbers of permanent tea estate workforces and increasing casualisation of employment. Furthermore, the long time needed to obtain the necessary certification may have led to the exclusion of non-certified smallholder farmers. As for the environment, the report by IDH & True Price (2016) found that the FFS farms reported lower fertilizer use, which is a positive sign of the training being taken up. Nevertheless, not all FFS farms are certified and it should also be noted that the certificate only sets its requirements in this regard at the level of commitment,

extensive impact evaluation of the programme published since the pilot evaluation (Waarts et al., 2012), it is not possible to conclude whether the scale-up was successful in including all small-scale farmers.

[170] A certification fee of US$0.10 per kilogram to factories from which it bought tea (Trustees of Princeton University, 2017).

[171] The criteria that farmers most often struggled to meet were those that required the greatest investment, such as the construction of storage facilities and the planting of indigenous trees. Many farmers also resisted standards that required changing entrenched practices, such as switching from burning waste to separating and recycling it (Trustees of Princeton University, 2017).

compliance, and continual improvement, so there is never a guarantee that improved environmental performance would actually occur (B. Ochieng, 2010). Finally, it should be noted that most tea sold from Kenya is mixed during the packing process, thus it constitutes a blend of several varieties. As initially not all of UTKL's suppliers were certified, tea that was sold with the Rainforest Alliance label had to contain a minimum of 30% certified leaves (and the percentage was to be correctly labelled on the packs). Furthermore, certified tea was sold for a premium price, regardless of the exact proportion of certified leaf that can actually be found inside the box (Cameron, 2017). Later, when more factories became certified, Unilever no longer had to track the percentage of certified tea in each blend, as they bought exclusively Rainforest Alliance certified leaves (Trustees of Princeton University, 2017).

Despite a recognisable number of benefits from such arrangements, a critical look at the scheme reveals similarities between the BBK's/UTKL's strategies from the 1960s and 2007. In the 1960s, as part of the internationally funded scheme to develop and integrate 'progressive' African tea farmers into the national tea production, BBK managed to impose high tea-plucking standards on smallholders. This approach proved to be extremely profitable for the multinational, as the company was able to purchase higher quality tea from smallholders and blend it with its own lower-quality tea in Kenya, while the mother company was able to access a better crop through the auction. With its (then) monopolistic position in the tea marketing and distribution 'pool', BBK maintained control over Kenyan tea production (Swainson, 1977, 1980). The strategic decision to obtain Rainforest Alliance certification and to commit to buying all of its tea from sustainable sources, preferably Rainforest Alliance Certified farms as of 2007, imposed similar standards on the outgrowers that UTKL was (and is) sourcing its tea leaves from in Kenya directly or through the auctions. Once again, UTKL created a scheme that initially targeted the frontrunner farmers and allowed them to buy a substantial amount of tea from smallholder farmers without directly employing them, thereby avoiding additional labour costs or the risk of disputes. In 2011, UTKL bought approximately 40% of KTDA's production (Henderson & Nellemann, 2012), while Unilever has consistently been the biggest buyer at the auction for more than 25 years (Business Daily, 2018a). At the same time, this move allows UTKL to maintain a certain control over tea production thus strengthening the company's position while determining not only nationally but on the global scale what 'sustainability' is (Dupont-Nivet, 2017).[172] This exchange translates into a good image and increased profits for the company. It should be noted, however, that the certifications did indeed improve agricultural practices among tea smallholders to some extent. With criticism of KTDA's claimed inefficiency and mismanagement, a degree of external support appears beneficial to the sector. The weakness of KTDA was, however, used by the MNC to make a move that strengthened its position on the local market, while contributing to the improvement of sustainable farming practices in the sector.

#### *3.4.3.2 Corporate Social Responsibility*

Through the years, BBK has been active in this field and contributes substantially to the communities in which they operate. The company's plantation model meant that BBK provided its workers with a number of additional welfare services. The company provided and maintained homes for their workers, sponsored education for employees' children on BBK premises and in the communities and provided healthcare for the workforce and their dependents. A number of these social welfare actions go beyond the requirements of the law and, although they may be viewed as a business necessity, the benefits often extend to the wider community (Orao-Obura, 2002). Furthermore, BBK could be considered a leader in promoting CSR and environmental sustainability, which they have engaged in on a more structural basis since 1993 (Brooke Bond Kenya Ltd., 1994). The social engagement aspect became even more prominent since the name change to UTKL in 2004 and when Paul Polman took over as Group CEO in late 2008 (Unilever, 2009). There were three main domains that BBK/UTKL reported being

[172] I.e. Unilever holds a place on the Board of the Rainforest Alliance.

particularly committed to: education, health and the environment in addition to investing in employee welfare.

In the education segment, BBK/UTKL built nineteen primary schools and two secondary schools for employees' children within company premises.[173] In addition, it supported the development of two primary schools and three secondary schools in neighbouring communities. The company also committed a substantial amount of money to university scholarships: one line that supported university education for gifted children of the general workforce, and a second line that was available for talented students from the neighbouring community. Since the late 1990s, the company has also provided support to one secondary school student a year for the whole of his or her education. Moreover, BBK/UTKL supported local schools with electricity and by construction laboratories (Unilever Tea Kenya Ltd., 2005-2008). With regard to vocational training and career development, the International Training Centre in Kericho has played an important role. From a rather basic beginning, the Centre has evolved to become a professional conference facility that provides courses on general management and a number of other trainings for the company's local, national, regional and international staff. Through the years, UTKL reportedly also sponsored a number of Kenyan staff to undertake training programmes overseas or has posted staff at several BBK/UTKL branches globally for a prolonged period in order to gain the necessary experience.

With regard to health, in 2007, the UTKL estates had 28 dispensaries, four health centres and a central company hospital (with its own maternity unit). The company also sponsored two full-time company doctors supported by a team of nurses, clinical officers, lab and pharmacy technicians, and careworkers. All medical facilities and treatments were free to employees and their children below 18 years. The UTKL became heavily involved in HIV/AIDS education, prevention and care initiatives among their employees and in the community as of 1999. The company also partnered with other global AIDS prevention initiatives to provide voluntary counselling, testing, as well as anti-retroviral treatment for affected workers and their dependents. Their HIV/AIDS programme was recognised internationally and was often used as a model for other communities and business initiatives. BBK/UTKL also emphasised health and safety measures at work by applying international standards and training a local employee to oversee their implementation (Brooke Bond Kenya Ltd., 2000; Unilever Tea Kenya Ltd., 2005-2008).

With regard to the environment, BBK started to report on its commitment in this field from 1993 onwards. BBK committed to introducing better soil conservation measures in their new tea developments. It introduced integrated pest management in Naivasha and minimized their use of chemicals (Brooke Bond Kenya Ltd., 1994). As of 1996, it operated within the Unilever Plantations group Environmental Charter and since 2004, the company has adopted Unilever's global "Sustainable Agriculture Initiative" and "The Unilever Code of Business Principles" (Brooke Bond Kenya Ltd., 1997; Unilever Tea Kenya Ltd., 2005). The latter set the standard for corporate behaviour as per the global policy of the mother company and emphasised the mix of successful business and "care about the customers, employees, shareholders, business partners and the world we live [in]" (Unilever Tea Kenya Ltd., 2005: 7). Its commitment to the environment and sustainability was reasserted in special 'themes' in their annual reports of 1998 and 1999 (Brooke Bond Kenya Ltd., 1999, 2000). In these reports, the Managing Director explained the official environmental and sustainability policy of the company, which also aimed at encouraging all the members of the supply chain and the industry as a whole to improve their overall performance in this regard. Their "Best Practice Guidelines for sustainable tea production" were published in 2003 and were disseminated among the company's outgrowers (Brooke Bond Kenya Ltd., 2004). These outgrowers also benefitted from further agricultural advice, management training and marketing expertise.

[173] The management of tea plantations in Kenya usually allowed children from the surrounding area to attend the primary schools on their estates (Orao-Obura, 2002).

As of 1994, the company committed to intensifying their efforts to preserve natural watercourses and instituted a programme for planting indigenous species of trees. Deforestation of Kenyan tea growing areas, partially caused by the development of the tea sector (N. Hall, 2000), contributed to much more erratic weather patterns and became a major concern for the business. To this end, the "Trees 2000" initiative was introduced in 2000. By 2007, it had resulted in the planting of 320,000 new trees within the estates and a similar number of seedlings being donated to schools, universities, hospitals, local institutions and other tree planting initiatives (Unilever Tea Kenya Ltd., 2008). The programme also supported Egerton University in creating the largest botanical gene bank in East Africa and it planted and maintained two arboreta in Kericho town. In 2006, UTKL partnered with the Kericho Municipal Council to support further tree planting in the city (Unilever Tea Kenya Ltd., 2007). BBK also joined the Lake Naivasha Riparian Association (1994) and was among the founder members of the Kenyan Flower Council (1996). In 2003, BBK became a member of the Worldwide Fund for Nature (WWF) through the Eastern Africa Corporate Club and together with the Friends of the Mau Watershed, it supported the reforestation of the Mau forest (which is critical for rainfall in the Kericho tea growing areas). The multinational also supported the annual Rhino Charge event – a national initiative aimed at the protection of the Black Rhino and other endangered species.

Finally, the company supports local communities. It assisted the local orphanage, the Kenya Amateur Athletics Association, provided food relief and tea in times of prolonged droughts to its workers and the community and supported a number of ad hoc 'harambee' initiatives. As a large estate, the company had to build and maintain much of the basic infrastructure, such as the in-house road networks, mini-hydro plant, bridges, transport systems and water treatment plant needed for their operations and workforce living on the estate. The company was there for the community in the periods of major crises. It offered food relief during the 1997 famine.

In 2008, the company's operations were severely affected by the post-election crisis. During the disturbances, eleven employees lost their lives and company property was significantly damaged. Over 20% of the workforce was displaced, which negatively impacted operations (Unilever Tea Kenya Ltd., 2008). The Unilever group of companies donated $US 1 mln in cash and food through the UN WFP for victims of the post-election violence. In addition, the company received donations of cash, blankets, food and other essential items from UTKL employees and from employees in other Unilever companies in Kenya and elsewhere. After the post-election violence, the company ensured that all employees were paid for the month of January (whether they were able to work or not) and subsequently allowed displaced employees to take first paid leave and then unpaid leave. They provided food, water and firewood for their displaced workers and organised transport back to their rural homes (Unilever Tea Kenya Ltd., 2008). Not everyone agreed that the UTKL efforts were sufficient. In 2016, a group of employees and residents of a Unilever tea plantation in Kenya filed a lawsuit against Unilever PLC (the parent company) and Unilever Tea Kenya Limited at the High Court in the UK. Unilever was accused of gross negligence in protecting its tea plant workers in Kenya during the extreme acts of violence that accompanied the elections of 2007. The British High Court, however, ruled in favour of Unilever and its Kenyan subsidiary (Business Daily, 2018b; Esdaile, 2018). In the explanation, the judge decided that the risk of violence on the plantation had not been foreseeable (because there had not been similar violence on the plantation in the past). Moreover, the High Court also assessed that there was insufficient evidence that Unilever Plc was actively responsible for the alleged crisis management failings of its Kenyan subsidiary (Lady Justice Gloster, Lord Justice Sales, & Lord Justice Newey, 2018).

### *3.4.4 Employment issues*

One of the major challenges that BBK/UTKL had to face in the years under review was labour unrest and increases in labour costs that substantially affected the costs of production and the company's profit margins. Already very early on in Kenya, tea plantation workers organised in a trade union and terms and conditions of service were fixed through a collective bargaining agreement (CBA) (Orao-

Obura, 2002). Collective bargaining has a long tradition in Kenya but its history is problematic. In the 1980s, under the Moi government, a number of trade unions were banned, deregistered or taken over by the leadership of the ruling party (cf. Ogolla, 2015). The plantation workers in the tea industry are represented by the Kenya Plantation and Agricultural Workers' Union (KPAWU), which also negotiates the CBA and the salaries with the Kenyan Tea Growers Association (KTGA) every two years (Stathers & Gathuthi, 2013). In the course of 1993-2008, renegotiation of the CBAs were accompanied by short strikes (Brooke Bond Kenya Ltd., 1994, 1997, 1999), with the greatest number of work days lost to strikes in 1997 and the greatest number of workers involved in strikes in 1998 (Orao-Obura, 2002). Despite its efforts, the work of the union was not perceived well by its members, who largely felt misrepresented (KHRC, 2008; Van der Wal, 2011).

The company workforce predominantly belongs to the union and BBK complies with Kenyan collective bargaining agreements. The CBA specifies the level of remuneration offered in the tea industry. The negotiated minimum daily rates that applied to field workers at the beginning of the 2000s were more than twice the rate set under the national Wage Order, while the salaries of field workers employed by the BBK was roughly three times that level (Orao-Obura, 2002). Tea pluckers are paid their monthly wages using the piece rate system, meaning that they are paid depending on the amount of tea they pluck, with a fixed minimum wage. Depending on the productivity of the individual plucker, he or she may receive a higher wage if targets are surpassed. With regard to factory workers, they are paid a monthly wage depending on their seniority (KHRC, 2008). Despite higher wages, the working conditions on BBK's tea plantations in Kericho were considered less than ideal. Workers reported poor housing conditions, sexual harassment[174] and ethnic and gender discrimination in relation to job and tasks distribution (KHRC, 2008; Van der Wal, 2011). Initially, the certification process did not improve the working or living conditions but UTKL committed to do more to tackle the issues (Van der Wal, 2011).

Wage levels regularly increased as per CBA and were accompanied by a substantial annual wage inflation for the company, which led to a significant increase in production costs. In 1999, BBK's labour costs constituted about 43% of total costs and about 55% of total costs in 2006. From 1996 to 2007, wages had risen to about 175%, yet the inflation rate had only grown to about 70% (KHRC, 2008). As a result of the rapid rise in the costs of employment, BBK was forced to restructure again in 2002. This time, it was accompanied by a significant reduction in staff: the management complement by over 25% and staff numbers by 17% (Brooke Bond Kenya Ltd., 2003). The cost-saving strategy also led to a new general management structure, with all new general managers being Kenyans – leading to the lowest numbers of expatriate managers ever (Brooke Bond Kenya Ltd., 2004; Unilever Tea Kenya Ltd., 2005). The company stated that is was taking advantage of the on-going digitalisation: as early as 2000, it installed internet in its Kericho head office and introduced a plantation-based IT system called 'Harvest IT'. The system was supposed to support managers to make quick decisions and benchmark the performance of their units, while the internet improved the speed of electronic communication, leading to major savings (Brooke Bond Kenya Ltd., 2001). To cut costs further, as of 2004, in line with the mother company's 'One Unilever' global strategy, UTKL entered into a shared service arrangement with other Unilever companies in East Africa to introduce common departments for finance, IT, audit, legal, corporate relations, HR and later communication (Unilever Tea Kenya Ltd., 2005-2007). Then, in 2006, due to continued adverse trading conditions, low tea prices, uncertain weather patterns, an appreciating exchange rate and escalating costs of production (especially wages), BBK further reduced its management workforce by 35% and again by 25% in 2007, with only four non-Kenyan managers left

[174] I.e. Allocation of houses was done by the 'village elders', who, in some cases, abused their power to allocate houses by asking single women for sex in exchange for housing (cf. KHRC, 2008). In 2013 and 2014, Unilever introduced new procedures for reporting complaints about managers and employed new staff members tasked with ensuring the welfare of workers on its Kericho tea estate. The company said the new staff and policies resulted in "a substantial improvement in the way sexual harassment issues are addressed"(Trustees of Princeton University, 2017).

(Unilever Tea Kenya Ltd., 2007, 2008). At the same time, the company started to intensify its active dividend policy (Figure 18).

On the plantation level, the new cost-saving strategy led to the increased casualisation of labour. Most plantations operate with a core staff of permanent workers, but also depend on large numbers of seasonal or casual workers during the peak seasons. Besides, there was frequent recourse to casual workers (Orao-Obura, 2002; Stathers & Gathuthi, 2013). Between 2004 and 2008, BBK did not employ any new permanent plantation workers and were instead increasingly dependent on casual labourers (KHRC, 2008). To cut costs, the company had to push for improved field productivity, especially of the plantation workers and of their factories. In 2003, the company outsourced all non-core activities, such as transport, fuel wood harvesting and warehousing and started trials with small-scale mechanised pruning and harvesting equipment (Brooke Bond Kenya Ltd., 2004). Semi-mechanical harvesting had already been introduced in 1997 (Brooke Bond Kenya Ltd., 1998) and the initial ideas to introduce a fully mechanised harvesting process were introduced in 1998 (Brooke Bond Kenya Ltd., 1999). In 2007, after years of testing, the company concluded that use of mechanised harvesting technology would bring significant cost benefits to the company (Unilever Tea Kenya Ltd., 2008). The multinationals entered into an agreement with KTGA to introduce the mechanised kits at only 3% of their farms on an experimental basis, an agreement that, according to KPAWU, was not respected in full. In 2019, KTDA also decided to start using tea plucking machines in a pilot project (Njeru, 2018). These developments do not point towards more productive employment, or to more inclusive developments in the sector.

## 3.5 Conclusions

This chapter described the potential contribution of Unilever Tea Kenya Limited (UTKL), and its predecessors, to inclusive development in Kenya by tracing the process behind nearly a century of tea sector development and the role of this MNC in it. The analysis reveals that what appears as an inclusive development outcome (successful smallholder inclusion) is a result of rather exclusive development processes. Moreover, the fully inclusive character of the sector can also be contested.

The analysis in this chapter illustrates that UTKL, and its predecessors, played a pivotal role in the development and professionalisation of the tea sector. The MNC was also instrumental in creating large-scale (although not fully productive) employment, increasing productivity and pushing the sector towards widespread adaptation of more sustainable agricultural practices. The narrative, however, reveals that local and international dynamics, in which MNCs are embedded, negatively affected equal access to opportunities within a sector. Achieving a greater inclusion of national farmers, thus one of the inclusive development outcomes in this case, was not a given. It was a time-consuming process and an outcome of long-term ‘occlusive’ negotiations, often behind closed door, between the MNCs, international donors and local governments. It took decades before meaningful representation for smallholders’ was permitted (even today, it is still not free from criticism), thus for a long period it was a highly exclusive process and, to some extent, it remains an exclusive sector. This is not always a negative issue, as capacity building takes time. However, this case study clearly demonstrates how important the convergence of political (and ethnic) interests with those of an MNC is for assuring spillover effects to the local economy.