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NANGA SLAUGHTER HOUSE

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On 11th May 2005, a senior consultant with one of the local consulting firms based in Nairobi was at his desk. The Mugo family, the owners of Nanga Slaughter House had invited him to help them resolve some of the conflicts that they had been having at the slaughter house and to make suggestions towards the preparation of a family protocol. The family had failed to reach a consensus on a number of issues. After several visits to the company and talking to the individual members of the family and some employees, he came to the conclusion that some of the issues raised were purely business issues while others touched on the relationship between the members of the family with regards to the business. The board of directors was due to meet in two weeks time and the consultant would be expected to give his deliberations to them. He looked at the issues on his desk and wondered what he was going to tell them and how he was rationally going to support his recommendations.

Hellen Otieno wrote this case under the supervision of Professor Lluis Renart of IESE Business School, Spain. It was prepared solely to provide teaching materials for class discussion. The writer does not intend to illustrate either effective or ineffective handling of a managerial situation. The names and other identifying information have been disguised to protect confidentiality.

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MSME Competitiveness Project

International Finance Corporation World Bank Group

MR. JOHN MUGO KABIRU

Mr. John Mugo Kabiru was born in 1933, in Kisasa Division, Nairobi, Kenya. He got married in 1955. He founded his 1st slaughterhouse in Kisasa Division in 1966. In 1981the slaughterhouse was moved to Ubungo, which was the livestock and meat center at that time. Ubungo was located 23 kilometres south west of Nairobi City. He was motivated to start the slaughterhouse by his late father who had been a livestock trader. He wanted to continue with his father's trade and even do more than what his father had done.

Mr. Mugo later founded a number of businesses. In 1975, he founded Kisasa Meat Supplies, a dairy and ranching business which, supplied milk to Kenya Co-operative Creameries (KCC) and later to Brookside Company, the companies processing dairy and milk products in the country. In the same year, he founded Mugo & Kabiru Estate, large-scale farms where coffee and tea were grown, processed and then taken to Kenya Tea Development Authorities (KTDA) factories to be auctioned.

In 1980, he founded the Mugo Group of Companies to bring his chain of businesses under one umbrella. M.K & K.M Investments, a horticulture company was also founded in the same year. It produced both indoor and outdoor flowers for export to chain stores abroad. In 1982, another company Mugo Holdings was founded. The company was concerned with management and development of real assets. Nanga Slaughterhouse was at the center of the family businesses representing about 70% of the total family businesses.

Mr. and Mrs. Mugo had one son and four daughters. Mr. Kabiru was the first- born and the only boy. The daughters were Nyambura, Njeri and Wanjiku in that order. Mr. Mugo gave four shares to his wife and one share to each of the children in Mugo Group of Companies. That gave Mrs. Mugo four voting rights and one voting right to each of the children in Mugo Group of Companies and by extension the same voting rights in Nanga Slaughterhouse. All of them became non-executive directors of the Mugo Group of

Companies and Nanga Slaughterhouse.

Mr. Mugo intended the decisions of the company to be by simple majority votes. He reasoned that while each of the children could act in their own self- interest when making business decisions, their mother would always act in the joint interest of them all. However, during his lifetime, Mr. Mugo made decisions of the company alone. He never consulted with any of the family members.

When Mr. Mugo passed away in 1989, the leadership of the company was passed to his wife who became the chairperson of Mugo Company Holdings. That made her the automatic chairperson of Nanga Slaughterhouse. Mr. Mugo, left a Will that his wife was to be the chairperson of the Mugo Company Holdings for ten years, after which the leadership was to be passed to another member of the family in order of seniority for another ten years and successively so in the future.

In 1995, bandits killed Njeri, the first-born daughter. She left behind three children. After her death, her husband and her mother, Mrs. Mugo[2], were appointed joint administrators of her estates until her children attained 21 years. In accordance with the provisions of Mr. Mugo's Will, that now gave Mrs. Mugo, effective control of a total of five voting rights against four of her son and the three surviving daughters. The late Njeri's husband could not administrate over her interest in Mugo Group of Companies because that was against the provisions of the late Mr. Mugo's Will.

Mrs. Mugo was supposed to pass the leadership to her son Mr. Kabiru in 1999. But that did not happen. Mrs. Mugo refused to relinquish the chairmanship to Mr. Kabiru. At the same time, she feared bypassing Mr. Kabiru to pass the chairmanship to the next sibling in seniority because that would be against the explicit provisions of the late Mr. Mugo's Will[3]. Because of constant conflicts between the family members on how the affairs of the chain of businesses were to be conducted, they decided in 2002 to divide the executive management of the businesses among themselves.

[1] The late Njeri's husband (a non Kenyan citizen) left the country and was living with another family in Rwanda. Their three children were left under the custody of their grandmother, Mrs. Mugo and were still under her custody even as at the time the Case was being written.

[2] Even though Mrs. Mugo was appointed the legal administrator of the late Njeri's estates, the other family members did not like the idea of her assuming the late Njeri's voting right in the business.

[3] Mr. Mugo left a Will to give guidance as to the way the businesses were to be managed and the people to manage them. He expressly stated that only blood relations of the Mugo family could inherit shares in Mugo Group of Companies. The Will was, however, silent on how the future generations of Mugo family were to inherit the shares.

Each member chose a business to head according to his or her interest. Mr. Kabiru Mugo chose Nanga Slaughterhouse[4].

THE SLAUGHTER HOUSE

Nanga Slaughter House was a family business. The late John Mugo Kabiru founded it in 1968 with three employees. His vision for the slaughterhouse was to supply meat to the whole of Nairobi City and even to the Middle East. The slaughterhouse was originally located in Kisasa, in Nairobi but was later relocated to Ubungo, Nairobi in 1982. Ubungo had been a meat center for a long time. It was here that Mr. Mugo's father used to meet with the livestock suppliers. Judging by the buildings which still stood as they were was in 1982 with very little modifications, Nanga Slaughterhouse must have been a very modern slaughterhouse by the time the facility was built (see exhibit 1 a picture of the slaughter house). However, the facility needed serious up grading if the late Mr. Mugo's dreams of supplying meat to the Middle East and the European Markets were to be realized. Although the cold room was much larger than any of the surrounding slaughterhouses, it was still quite small by modern standards.

During the life of the late Mr. Mugo, Nanga Slaughterhouse was commercially and economically operated in the following ways: First, the animals to be slaughtered had two origins: (i) In order to have a steady supply of animals for the slaughterhouse, Mr. Mugo set up his own ranch where he kept animals. During the season when there was excess supply of animals in the market i.e. when the prices of animals were low, he would buy live animals in Ubungo market and from the livestock farmers. Some of these he would take directly to the slaughterhouse to be slaughtered, the rest he would take to the ranch to be reared and fattened.

[4] Although the executive management of the chain of businesses was divided among the family members, they all retained their interests in all the businesses.

(ii) During the dry season, when there was low supply of animals in the market, i.e. when prices of animals were high, he would get the animals to be slaughtered from the ranch. Once the animals were slaughtered, some of the meat was supplied to his chain of butcheries in Nairobi City while the rest was sold to other butcheries in the city and to institutions such as Department of National Defense (D.N.D), National University of Kenya (N.U.K) and National Hospital of Kenya (N.H.K). In either case, the animals slaughtered were the property of Nanga Slaughterhouse. This was the main operation of Nanga Slaughterhouse. Secondly, there were independent traders who brought their animals to be slaughtered at the Nanga Slaughterhouse at a fee.

After Mr. Mugo died in 1989, Nanga Slaughterhouse continued to operate in this way. For close to six years, Njeri, one of the late Mr. Mugo's daughters, now carried the key function of buying the live animals from Ubungo Market and the nearby ranches. However, in 1995, very unfortunately and sadly, Njeri was robbed and killed by bandits who knew that she carried with her large amounts of cash to pay for the live animals. Neither the brother Mr. Kabiru, nor any of her surviving sisters was ready to carry on the business of buying the live animals after Njeri's death. For a while, employees who were not members of the family did the buying of live animals to be slaughtered at Nanga. This method of buying had to be stopped when the family realized that employees were cheating on the buying prices.[5] It prompted a radical change in the way Nanga Slaughterhouse was operated. It was not at that point in time, the legal owner of the live animals slaughtered or the resulting meat carcasses. It became a purely service business, supplying the facilities and performing the slaughtering process for other people's animals for a fee. That brought a drastic reduction in the Nanga's turnover. If Nanga bought alive cow from a livestock farmer, fattened it for about six months and slaughtered it and finally sold the carcass plus the skin to other traders, the total net turnover would be about Kshs.5000. If it supplied the same to the chain of butcheries

[5] The buying prices of animals fluctuated almost daily as a result of the market's normal variations in

supply and demand. But also determining the right buying price of a live animal was very difficult and tricky, because different individual animals may give substantially different yields of sellable meat after

owned by the family or to the institutions, the total net turnover would be Kshs.21500. However, when Nanga was not the owner of the same cow, it collected a net slaughtering fee of about Kshs.203. The sales turnover and profitability was therefore very substantially reduced when a slaughterhouse killed for a fee animals that were not its own, but owned by day traders. With that Nanga Slaughterhouse also lost its centrality in the family business.

OPERATIONS AND ADMINISTRATION OF THE SLAUGHTERHOUSE IN 2005

Nanga slaughterhouse became a service business. It slaughtered goats, sheep, cows & bulls. At that point in time most of the animals slaughtered did not belong to the Mugo family. Every day traders came to Ubungo Meat Market to buy and sell animals. All animals traded in the market were marked for identification purposes. A trader wishing to slaughter his or her animal would take it to one of the three slaughterhouses in Ubungo Market. Nanga Slaughterhouse boasted of a spacious slaughtering space, a relatively large cold room and a spacious parking lot unlike the other two slaughterhouses. When the animal was brought to the slaughterhouse, the mark was noted at the entrance before being taken into the slaughter section. Once an animal was slaughtered, the carcass was marked and then hanged on hooks in a separate room where buying and selling of the meat took place. The transaction was done between the day trader (who had bought the live animal) and the meat buyer. There was a separate section where the skins were stored before being collected by the owners and another section where the offal were cleaned.

Nanga slaughterhouse charged a fee on every animal slaughtered. In mid 2005, an average of about 100 large animals such as cows & bulls and 60 small animals mainly sheep and goats were slaughtered at Nanga slaughterhouse daily. For each large animal

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slaughtering. In an extreme case, a careless buyer could buy a sick live animal whose meat might be subsequently condemned by the sanitary inspector, thereby resulting in a complete loss.

[6] In mid 2005, the going rate of exchange was Kshs.76.5 per 1 US Dollar, and Kshs.91.5 per 1 Euro.

slaughtered, a fee of Kshs.400[6] was charged. From the Kshs.400, the management paid Kshs.50 per cow to Kilele County Council under which Ubungo market fell for the maintenance of the road and the treatment of the effluent. In addition, Kshs.100 inspection fees to the public health officers who were attached to the slaughterhouse and Kshs.47 for services such as splitting the meat, chaining and washing the offal if required. Thus the slaughterhouse retained Kshs.203 for every cow slaughtered. For small animal slaughtered, a fee of Kshs.65 was charged. Out of that, the management retained Kshs.32 while Kshs.25 inspection fees were paid to the public health officers and Kshs.8 to the county council.

The Mugo family also bought the meat to be supplied to their chain of butcheries in the city from such traders. The meat was normally bought at around 4.00 pm almost at the close of the day's business. That ensured that they bought the meat at a good price. At this time of the day most traders were desperate to sell off their remaining meat. A client who was unable to sell all the meat at the end of the day was charged Kshs.300 per day for the use of the cold storage. In addition to the fees, meat also usually lost weight in the cold room meat. Furthermore, most buyers preferred to buy warm meat, because subsequent customers, the Nairobi butchers also preferred to buy warm (not refrigerated). Fresh warm meat was easier to cut. Thus the "left over" carcasses not sold at the end of the day had a triple economic cost to the owner: they lost weight because of refrigeration, the traders had to pay refrigeration fee, and they lost some of their commercial attractiveness. Such meat fetched lower prices.

The day to day running of Nanga Slaughterhouse was entrusted to the operations floor manager, three section-heads, an accountant, two clerks and one administrative secretary. In addition, there was one messenger and one driver. Mr. Kabiru Mugo was the director of the slaughterhouse. As the director of the Slaughterhouse, he was formally in charge of the overall day-to-day running of the slaughterhouse.

The board of directors of the Mugo Company Holdings Ltd normally met twice every month to decide on the company policies and by extension the policies of Nanga Slaughterhouse. There was no written policy on the qualifications of people to be hired or salaries to be paid to which cadre of employees. There was also no policy on how the members of the family who were employees of the slaughterhouse could be remunerated. The board of directors only set a ceiling on the number of people that could be hired at any given time.

THE CHALLENGES FACING NANGA SLAUGHTERHOUSE IN 2005

Nanga Slaughterhouse had experienced several challenges since the founder died. During his lifetime, Mr. Mugo used to make business decisions alone. He did not consult with anyone. After his death there were frequent disagreements over the decision making process in the Mugo Group of Companies and by extension the slaughterhouse.

As was expressly stated in the Will, the affairs of the slaughterhouse were meant to be decided by simple majority votes but that had not happened. With Mrs. Mugo's five votes it was impossible to pass anything without her blessing. The other members realized that any one person who could win her on his or her side would be the winner at the end of the day. That had created a lot of rivalry between the siblings. The members resorted to lobbying for support instead of voting whenever any management issue or a decision was to be made. That had not helped to resolve the situation. It only increased the tension between the family members.

One of the problems facing the Mugo family was whether or not Mrs. Mugo should continue holding the share of the late Njeri. Nduta, the first-born daughter of Njeri turned 22 years old in 2005**.** She had completed her Bachelor's degree in 2004 and was now employed by Mugo Company Holdings Ltd. Her two brothers also turned 20 and 18 years old in 2005. Nduta was supposed to be the legal administration of her mother's estates on her own behalf and on behalf of her two brothers in 2004 when she turned 21 years old. However, that did not happen. Mrs. Mugo refused to hand over her late daughter's interest in the business to Nduta. She stated that Nduta would only come on board when all the other grandchildren of Mugo were ready to do so. The other board members were unhappy with that decision but there was very little they could do about it. Mrs. Mugo even dared them to take her to court if they so wished[7]. Worse still the matter could not even be voted since with Mrs. Mugo's five votes they would all lose.

Another area of conflict was over the appropriation of profits. On 16th March 2005, the chairperson and the other Board of Directors of Nanga Slaughterhouse met to declare the dividend for the year 2004. M/s Nyambura suggested that fifty percent of the net profits for 2004 be used to refurbish the slaughterhouse (as had been in Mr. Mugo's Will), to treat the effluent from the slaughterhouse and to repair the road leading to the slaughterhouse. She reasoned that the slaughterhouse had a social responsibility to maintain the environment within which it operated. She further argued that repairing the road was urgent since the business was losing customers to other slaughterhouses around. The road to the slaughterhouse was in very poor state.

During the rainy season it became almost impassable. She suggested that the slaughterhouse could then boy-cot paying taxes to the council until all the money spent on the road was recovered. However, the other members did not support the idea. They argued that it was not their duty to treat the effluent or to repair the road. On the contrary, they wanted only five percent of the total net profits to be used for refurbishment and the rest to be declared and distributed as dividend immediately. Furthermore, they did not see repairing the road as an important threat since frequently customers who left the slaughterhouse sooner or later came back. To them, Nanga Slaughterhouse enjoyed a competitive advantage because of its facilities, which were superior compared to the other slaughterhouses. It had a spacious parking area, cold rooms and relatively bigger slaughter area compared to the other two nearby.

The other members argued that Nanga Slaughterhouse was paying slaughtering fees, land rates and operational license fees to Kilele County Council. Kilele County Council was supposed to have built a lagoon where the effluent from the slaughterhouses was to be collected and treated before being discharged into Nairobi River. The council was also supposed to build and maintain the road to the slaughterhouses and the environs. However, that had not happened. The slaughterhouses were therefore forced to discharge the raw effluent directly into the river without treatment. The effluent had polluted the surrounding area. This had become an environmental hazard. In 2004, the National Environmental Management Authority (NEMA) filed a legal suit against Kilele County Council and enjoined the surrounding slaughterhouses in the suit. Nanga Slaughterhouse was one of them. NEMA gave them a one- year ultimatum that ended in March 2005.

Another challenge facing Nanga Slaughterhouse was lack of commitment on the part of the family members. Up to 1995, Mugo family owned the animals that were slaughtered and supplied to the chain of butcheries owned by the family in the city. However, that part of the business was stopped right after Njeri died. No member of the family was willing to take the risk or sacrifice his or her time to buy the live animals from the market. They tried engaging other people to do that on their behalf but stopped when they suspected that the employees were cheating on prices.

There was also a looming challenge of how the grandchildren of the Mugo were to assume interests in Mugo Group of Companies and by extension Nanga Slaughterhouse. Although the Will left by the late John Mugo Kabiru stated that only blood relations of the Mugo Family were to inherit shares in the Mugo Group of Companies, it was silent on how the grandchildren would be brought into the governing board and/ or the executive board of the business. Already some of the grandchildren were of age and had expressed interest to join the family business.

[7] In the Kenyan cultural context it was very rare for son or daughter to take his or her parent to court. Such an action would be frowned upon.

CONCLUSION

As the consult looked at all the issues on his desk he realized that they were more dynamics than he had anticipated. He realized that the situation was very delicate and that the future of these chains of businesses could lie in what he was going to tell the family members. He wondered what he was going to tell the family and how he was going to rationally support his recommendations without being seen to be siding with any member of the family.