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ROLE OF DEFENSIVE AND SWING STAKEHOLDER MANAGEMENT STRATEGIES ON OPERATIONAL PERFORMANCE OF SMALLHOLDER TEA SECTOR IN KENYA

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ABSTRACT

This study sought to evaluate the role of defensive and swing stakeholder management strategies on operational performance of smallholder tea sector in Kenya. It was established that exclusive use of either defensive or swing strategy had a positive and significant relationship with performance of smallholder tea sector in Kenya. It was also established that stakeholder management strategies collectively had no significant influence on the performance of smallholder tea sector in Kenya. However, the study results established that stakeholder engagement had a strong moderating effect on the relationship between stakeholder management strategies and performance of smallholder tea sector in Kenya. Stakeholder management strategies enhanced performance of smallholder tea sector in Kenya in terms of sales volume and quality of tea. Contribution of the current study would include the addition to knowledge of strategic management. The exploration of the linkage between stakeholder management strategies and performance of smallholder tea sector in Kenya particularly in developing countries which provides not only significant contribution to the strategic management literature but also enables managers to employ the right stakeholder management strategies for their firms to compete in the fast changing environment. Another major contribution is underlying assumption of Stakeholder Theory as used in this study is that stakeholder management strategies of defensive and swing and stakeholder engagement strategies influence performance of smallholder tea sector when used exclusively and for firms to achieve performance they must choose either of these strategies. The study recommended that policy managers of these firms pay careful consideration to aligning their stakeholder management strategies and in consideration with the stakeholder engagement as one of the environmental variables so as to enhance performance in this ever changing global business world.

Key Words: Defensive Strategies, swing strategies, stakeholder management

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INTRODUCTION

The tea industry has contributed significantly to the development in the country and therefore its importance cannot be underestimated (Kegonde, 2005). The sector contributes 4 per cent of GDP with the government of Kenya listing the sector as one of the pillars of realizing Vision 2030 (Ministry of Agriculture Livestock and Fisheries, 2015). The tea sector employs approximately 3 million people directly and indirectly; a figure which is translated to about 10 per cent of the Kenya population (KHRC, 2008).

The tea growing industry in Kenya is unique because it has two separate sectors; plantations and smallholder tea growers. The plantation sector is owned by large scale tea producers and private companies, while the smallholder sector is owned by local small scale growers. Smallholder tea farmers are defined as those farmers owning small-based parcels of land on which they grow subsistence crops and relying almost exclusively on family labour; with less than eight hectares (Nyangito & Kimura, 2009).

The tea industry is the leading foreign exchange earner accounting for 20% of the total agricultural export earnings in Kenya. Over 95per cent of the tea produced in Kenya is exported while the rest is consumed locally. The sector constitutes 60% of the total tea production, the balance coming from the large tea estates. The multinationals depend on the small-scale farmers for up to 50 per cent of their production. The increase in production by smallholder farmers is mainly due to expansion in acreage rather than better agronomic and processing skills (Keraro, Mokamba, Cheluget, Kithitu, & Mbogo, 2012). The smallholder tea sector contributes immensely towards employment and improves the quality of life of rural families (Simbua & Loconto, 2010).

KTDA has exclusive control over the provision of planting material and extension services to the smallholder farmers, provision of fertilizers, inspection, collection of green leaf from farms, processing and marketing (Kimathi & Muriuki,

2014). The smallholder sector is grappling with increased costs of factor inputs, exemplified by the labour costs that have gone up an average of 200 per cent between 2001 and 2015 (AFA Tea Directorate, 2017). The activities of smallholder farmers are less environmentally friendly and thus hard to incorporate them in export market supply chains that call for increased quality and environmental standards (Chan, Marta, Mihretu, & Tamiru, 2010).

Smallholder tea farmers face limitation in decision making on the processing and marketing of their tea through smallholder tea factories (Keraro et al., 2012). The tea farmers therefore, have shown an increasing interest in production of horticultural crops for income and livelihoods as tea income is insufficient to meet their needs (Kanyua, Ithinji, Muluvi, Gido, & Waluse, 2013). However, such practices should awaken the industry leaders that all is not well in the smallholder tea sub-sector (FAO, 2016).

Statement of the Problem

Tea sector in Kenya is organized with diverse stakeholders playing different roles that complement each other to enhance performance of the sector (Kagira et al., 2012). The sector is run by stakeholders and structured into regulatory, research, producers, traders and value addition operations (EPZA, 2005). According to Blair, Payne, Rotarius, Whitehead and Whyte (2011), stakeholders exert an influence on firm performance. Effective stakeholder management strategy creates positive relationships with stakeholders through the appropriate management of their expectations and agreed objectives (Ackermann & Eden, 2011). Changwony (2012) opines that effective stakeholder management strategies in the tea sector can enhance performance of smallholder tea sector in Kenya. Šmakalova, 2012 states that organizations that address their stakeholders' interests will perform better than firms that do not address these groups' interests.

However, smallholder tea sector in Kenya lack effective stakeholder engagement strategies thereby hindering the performance of the sector (TRF, 2011). The stakeholders, without their engagement, knowledge, skills, talent, loyalty, and the organization could not achieve its objectives (Ventsislava & Sanela, 2017). Smallholder tea sector stakeholder's engagement is ineffective thus affecting implementation of stakeholders management strategies meant to enhance performance of the sector in Kenya (Changwony, 2012). For example, lack of proper coordination and consultation between various stakeholders due to poor stakeholder engagement led to a loss of about 40% of tea leaf to large plantations and private producers.

This implies that inspite of the legal, policy and institutional reforms so far undertaken in the tea sector in Kenya, the smallholder tea farmers are still unable to effectively compete with plantations and private producers (KTDA, 2014). The tea sector contributes 4 per cent of GDP with the smallholder tea growers accounting for 60 percent of all the tea produced in Kenya (Mwaura & Muku, 2007). The government of Kenya list the tea sector as one of the pillars of realizing the Vision 2030 and therefore the inability of the smallholder tea sector to perform affect the overall economic growth of the country (Ministry of Agriculture Livestock and Fisheries, 2015). This presented a gap for research to establish the role of defensive and swing stakeholder management strategies on performance of smallholder tea sector in Kenya.

Objectives of the Study

The purpose of the study was to establish the role of defensive and swing stakeholder management strategies on operational performance of smallholder tea sector in Kenya. The specific objectives were:-

- To establish the role of defensive strategy on operational performance of smallholder tea sector in Kenya.

- To examine the role of swing strategy on performance of smallholder tea sector in Kenya.
- To assess the moderating role of stakeholder engagement on stakeholder management strategies and operational performance of smallholder tea sector in Kenya.

LITERATURE REVIEW

Theoretical Review

Stakeholder Theory

The role of stakeholder theory is seen to extend past the formulation of strategy to the establishment of performance goals (Phillips, Freeman, & Wicks, 2003). Maintaining close relationships and possible alliances with key stakeholders, a company can expect long-term cooperation that will lead to mutual benefits and therefore expect better performance of such a company in the future (Noland & Phillips, 2010). Firms that have good relationships with their stakeholders, on the basis of mutual trust and cooperation, will have a competitive advantage over firms that do not (Lukviarman, 2010). Meeting all stakeholders need and satisfaction is an important project success factor (PMI, 2013). According to Ackermann and Eden (2011), the interested parties deserve to be recognised as having a stake in the business because their performance will be impacted on by the operations of the organisation.

According to Fassin (2008), stakeholders' can be categorised into three: primary stakeholders are directly affected by the work of the organization and are usually project beneficiaries. Customers often fall into this category. Secondary Stakeholders are indirectly affected by the work of the organization and include teams supporting the project and/or those impacted by its outcome. Key Stakeholders have a strong influence over the work of the organization and have a vested interest in its success. This group includes executives. Each category of stakeholders have varying and competing interests, objectives, and agendas. Identify and rank their influence and interest to

keep projects moving and avoid getting pulled in every direction.

Corporate Social Responsibility Theory

Corporate social responsibility (CSR) can be described as embracing responsibility and encouraging a positive impact through the company's activities related to the environment, consumers, employees, communities, and other stakeholders (Gocejna, 2016). Carroll, a leading proponent of CSR, defined CSR as a form of corporate self-regulation integrated into a business model to contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large (Carroll & Buchholtz, 2011). CSR is an integral component of corporate governance, particularly when there is a conflict between the social goal of benefiting society and the corporate goal of maximizing profits (Garriga & Melé, 2004). CSR enable companies to integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Mishra & Suar, 2010).

Even though the main motive of business is to earn profit, organizations take initiative for welfare of the society and should perform its activities within the framework of environmental and ethical norms. CSR affirms that corporations are entities with economic, legal, ethical, and philanthropic/discretionary obligations (Carroll & Buchholtz, 2011). CSR initiatives tend to improve a company's economic performance, allowing it to earn higher profits through enhanced brand reputation, more-productive employees, and insulation from regulatory penalties (Baden, 2010).

Conceptual Framework

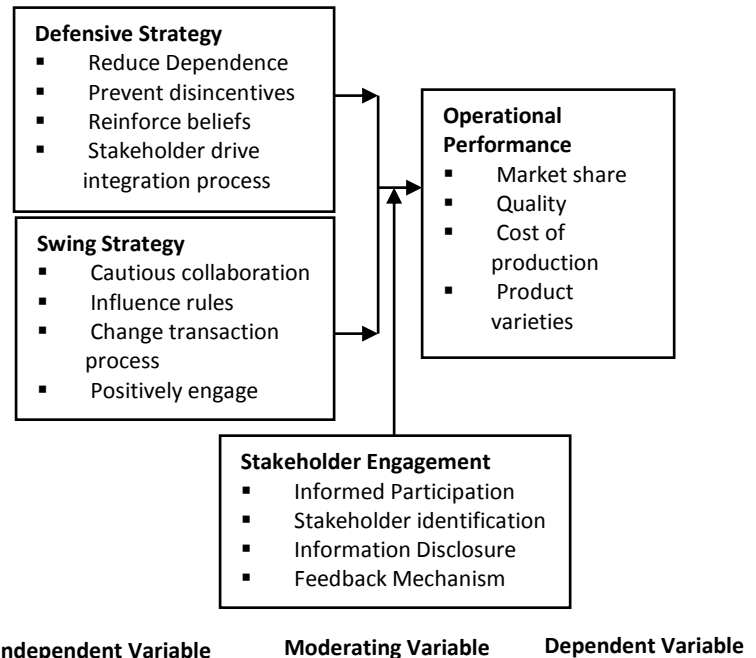


Figure 1: Conceptual Framework

Source: Author (2018)

Defensive Strategy

Defensive strategy prevent the stakeholder from imposing costs or other disincentives on the organization (Šmakalova, 2012). Defensive strategy reinforces current beliefs about the firm and maintains existing programs and letting the stakeholder drive the integration process (Fontain et al., 2010; Gabrieth, 2009). It involves making it difficult for the competitors to acquire the market share and the new entrants to access the market (Donaldson & Preston, 2011; Minyu, 2012). Afram (2011) established that defensive strategy leads to a considerable financial success in the firm operations.

Defensive strategy leads towards lower interest rates, quality customer service, tailored products, and there is also intensified competition. Defensive strategy involves building a brand image and customer loyalty thereby improving on the performance of the firm (Spark, 2016). Defensive strategy should be adopted when a group is non-supportive (Šmakalova, 2012). This is a stakeholder relationship with high threatening potential but low cooperative potential. The defensive strategy

tries to reduce the dependence that forms the basis for the stakeholders' interests in the organization.

Swing Strategy

Swing strategy adopts cautious collaboration (Šmakalova, 2012). Through collaboration efforts, the firm make it more difficult for stakeholders to oppose the organization (Blair et al., 2011). The strategy maximizes the cooperative potential and thereby minimizes the potential threat (Minyu, 2012). This maximizes stakeholders' positive influencing abilities and minimizes threatening abilities (Friedman & Miles, 2006; Polonsky & Scott, 2009).

These are potentially threatening stakeholders and cautious collaboration will make it more difficult for them to oppose the organization (Blair et al., 2011). If this type of stakeholder is not properly managed through using a collaborative strategy, it can easily become a non-supportive stakeholder. Non-supportive stakeholders impose costs or other disincentives on the organization (Šmakalova, 2012)

Operational Performance

Performance is the dependent variable in this study. The term performance expresses a programme of change and improvement (Wouter, Geert, & Halligan, 2015). Performance in this context refers to the productive organization, that is, an organization that has the capacity to perform and converts this capacity into results-outputs and outcomes (Obiyo & Lenee, 2011; Rouf, 2011). Performance measurement refers to the process of measuring the action's efficiency and effectiveness (Ebrahim, Abdullah, & Faudziah, 2014). Performance measurement and analysis is crucial for steering the organization to realize its strategic and operational goals (Popova & Sharpanskykh, 2010; Valenti et al., 2011). The company's performance can be viewed from the financial statement reported by the company (Herly & Sisnuhadi, 2011).

Poor performance of smallholder tea sector is attributed to high cost of production (Onduru, De Jager, Hiller, & Bosch, 2012). Smallholder tea sector is losing its market share to private factories and plantations due to tea hawking (Africa Investor, 2010). Poor quality tea produced by smallholder growers affects performance of smallholder tea sector as their products are neglected by output markets (Mwaura & Muku, 2007). The quality of tea determines the prices of tea in the market, with higher quality teas commanding higher prices than lower quality teas (Kathata, 2011). The lack of varieties has greatly affected the performance of the smallholder tea sector (TRF, 2011). In real terms, prices of tea have gone down by about 35% in the past 25 years (Mulder, 2009).

Empirical Review

Defensive Strategy

Defensive strategy should be adopted when a stakeholder group is non-supportive; such a stakeholder group has relatively low cooperative potential and relatively high threat to the organization (Šmakalova, 2012). These stakeholders have little involvement or vested interest in your organization, but are very powerful. A firm should do it's best to keep them satisfied, but don't take up too much of their time (Fassin, 2008). Non-supportive stakeholders of a firm include groups such as competitors, governments, and activists. The firm should pursue a strategy defending against this type of stakeholders by changing their status (Minyu, 2012). Defensive strategy involves making it difficult for the competitors to acquire the market share and the new entrants to access the market (Donaldson & Preston, 2011). It involves trying to defend the current position in the market by building brand image and customer loyalty by investing in the current markets. This can be achieved by making price cuts or adding new market offensives and thereby improving on the performance of the firm (Spark, 2016).

The primary purpose of defensive strategy is intended to protect market share, position and profitability enjoyed by the incumbent firms. Defensive strategies work better when they take place before the challenger makes an investment in the industry, or if they enter the industry before exit barriers are raised, making it difficult for the challenger to leave the industry. Pre-entry defensive strategies are actions taken by firms intended to persuade potential entrants to believe that market entry would be difficult or unprofitable. Such actions include signalling, fortify and defend, covering all bases, continuous improvement, and capacity expansion (Yannopoulos, 2011).

Organizations can use signalling to alert their competitors about their intention to take an action in the industry. This is intended to pre-empt or deter competitors from attacking their market territories and showing the commitment they have in the particular market. The purpose of defensive strategies is to lower the inducement to attack. These can be lowered by reducing the profit expectations of the entrant. The most common barriers to entry include economies of scale, switching costs, access to raw materials and other inputs, access to distribution channels and location (Karakaya & Yannopoulos, 2011).

According to a case study done by Šmakalova (2012) on generic stakeholder strategy in the area of marketing, companies and researchers emphasize mostly on the role of customers, points that the companies often realize that defensive strategy enhance decisive factors of company's behaviour and performance. Attention to stakeholder concerns may help a firm avoid decisions that might prompt stakeholders to undercut or thwart its objectives. This possibility arises because it is the stakeholders who control resources that can facilitate or enhance the implementation of corporate decisions; in short, stakeholder management is a means to an end. The end or the ultimate result may have nothing to do with the welfare of stakeholders in general. Instead, the firm's goal is the advancement of the

interests of only one stakeholder group, its shareholders.

Swing Strategy

Swing strategy should be adopted when a stakeholder group is mixed blessing; such a stakeholder group is high on the dimensions of both potential threat and potential cooperation to the organization (Šmakalova, 2012). The best way to manage the mixed blessing relationship may be cautious collaboration. The goal of this strategy is to turn mixed blessing relationships into a supporting relationship. If an organization seeks to maximize their stakeholders' potential for cooperation, these potentially threatening stakeholders will find their supportive endeavours make it more difficult for them to oppose the organization (Blair et al., 2011).

Mixed blessing stakeholders include possible alliance partners, potential customers, or prospective suppliers. The firm should undertake a collaborative strategy to maximize the cooperative potential and thereby minimize the potential threat (Minyu, 2012). Firms should collaborate with mixed blessings stakeholders to maximize their positive influencing abilities and minimizes threatening abilities (Friedman & Miles, 2006). Strategies for dealing with swing stakeholders seek to change or influence the rules of the game that govern stakeholder interactions (Polonsky & Scott, 2009).

RESEARCH METHODOLOGY

The study adopted a survey research design because it provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Survey research design includes cross-sectional and longitudinal studies using questionnaires for data collection with the intent of generalizing from a sample to a population (Creswell, 2014). The study was anchored on positivist philosophy since it is directly associated

with the idea of objectivism. The study population comprised of all the smallholder tea factories in Kenya (AFA Tea Directorate, 2017). The unit of analysis was the tea factory. Stakeholder relationship management issues are handled by managers of an organization (Friedman & Miles, 2006). The target population included the directors, production managers, field officers and the factory unit managers. The unit of observation comprised of 708 (directors, production managers, field officers and the factory unit managers) in the smallholder tea sector in the different tea regions in Kenya. The tea regions include Region 1: Aberdare Ranges; Region 2: Aberdare Ranges; Region 3: Mt Kenya; Region 4: Mt Kenya & Nyambene Hills; Region 5: Kericho Highlands; Region 6: Kisii Highlands; Region 7: Nandi Hills & Western Highlands (KTDA, 2018).

RESULTS

The chapter discussed the study findings and analysis of the data collected. The information gathered from the analysed data confirmed that stakeholder engagement strengthens application of stakeholder management strategies in the smallholder tea sector in Kenya. The study established that the selected stakeholder management strategies played varying significant roles on the performance of smallholder tea sector in Kenya. The study results showed that defensive and swing strategies individually had significant positive influence on performance of smallholder tea sector in Kenya. The optimal model discussed improved on tea factories operational performance in terms of market share, new product development, improved quality and reduction in production costs. Defensive and swing strategies combined had insignificant relationship with performance of smallholder tea sector in Kenya. The study established that stakeholder engagement moderated the relationship between stakeholder management strategies and operational performance of smallholder tea sector in Kenya. Therefore, the study confirmed that stakeholder engagement had a moderating effect

on the relationship between stakeholder management strategies and performance of smallholder tea sector and that it had positive effect on the its performance.

SUMMARY

The overriding purpose of the study was to determine the role of stakeholder management strategies on operation performance of smallholder tea sector in Kenya. The study established that the selected stakeholder management strategies played varying significant roles on the performance of smallholder tea sector in Kenya. The study results showed that defensive and swing strategies individually had significant positive influence on performance of smallholder tea sector in Kenya. However defensive and swing strategies combined had insignificant relationship with performance of smallholder tea sector in Kenya.

The study established that the application of stakeholder management strategies depend on the category of stakeholder relationship at a given time. A particular stakeholder can therefore only be classified to a particular category of stakeholder relationship and only one strategy can be applied to that category. The study established that stakeholder engagement moderated the relationship between stakeholder management strategies and operational performance of smallholder tea sector in Kenya.

On the role of defensive strategy on operational performance of Smallholder Tea Sector in Kenya, the study findings rejected the null hypothesis and established that performance of smallholder tea sector in Kenya was significantly influenced by defensive strategy positively. Therefore, a unit increase in use of defensive strategy index led to an increase in operational performance of smallholder tea sector in Kenya. This confirms that there is a positive linear relationship between defensive strategy and operational performance of smallholder tea sector in Kenya. The study showed that defensive strategy was intended to protect market share, position and profitability enjoyed by

the incumbent firms through continuous improvement and capacity expansion. Defensive strategy lowers the inducement to attack by a competitor through controlling access to raw materials and other inputs and access to distribution channels and location.

On the role of swing strategy on operational performance of Smallholder Tea Sector in Kenya, the study findings rejected the null hypothesis and established that performance of smallholder tea sector in Kenya was significantly influenced by swing strategy positively. Therefore, a unit increase in use of swing strategy index led to an increase in operational performance of smallholder tea sector in Kenya. This confirmed that there is a positive linear relationship between swing strategy and operational performance of smallholder tea sector in Kenya. The study asserts the need for collaboration efforts to make it more difficult for stakeholders to oppose the organization by maximizing on stakeholders positive influencing abilities and minimizes threatening abilities.

On moderating role of stakeholder engagement on stakeholder management strategies and operational performance of smallholder tea sector in Kenya, the study findings showed that defensive and swing strategies individually had significant positive influence on performance of smallholder tea sector in Kenya. However defensive and swing strategies combined had insignificant relationship with performance of smallholder tea sector in Kenya.

The study established that stakeholder engagement moderated the individual relationship between defensive and swing strategies and operational performance of smallholder tea sector in Kenya. Further, the study established that stakeholder engagement moderated the joint relationship between stakeholder management strategies and operational performance of smallholder tea sector in Kenya. The study asserts that positively engaged stakeholders are important for organizational success as this promotes the development of collaboration and shared goals. The value of the stakeholder engagement process

can be greatly enhanced by clearly defining, articulating and communicating the scope and boundary of the stakeholder engagement policy. Regular feedback and updates should be incorporated in the plan to enable the process and create the necessary visibility.

CONCLUSION

The study findings indicated that defensive strategy plays a significant role on performance of smallholder tea sector in Kenya. The tea factories reduce dependence on stakeholders to prevent them from imposing costs or other disincentives. The study established that they do reinforce the current beliefs and maintain the existing programs to enhance on market share. The study found out that swing strategy played a strategic role on the performance of smallholder tea sector in Kenya. This is achieved through cautious collaboration with the stakeholders to maximize their positive influencing abilities.

Stakeholder management strategies collectively play insignificant role on performance of smallholder tea sector in Kenya. Subsequently, the study had a basis to conclude that, individually, stakeholder management strategies played a positive role on performance of smallholder tea sector in Kenya. Stakeholder engagement has a moderating effect on the relationship between stakeholder management strategies and operational performance of smallholder tea sector in Kenya. The study established that stakeholder engagement enhances the relationship between stakeholder management strategies and operational performance of smallholder tea sector in Kenya. This is achieved through the process of engagement and listing the legitimate concerns of stakeholders. The tea factories incorporate feedback on the engagement process and seek participation of its stakeholders in decision making.

RECOMMENDATIONS

The study recommended that defensive strategy should be adopted when a group is non-supportive. The defensive strategy would reduce

the dependence that forms the basis for the stakeholders' interests in the organization. It would involve proactively preventing the stakeholder from imposing costs or other disincentives on the organization. This can be achieved by making price cuts and lowering the inducement to attack by reducing the profit expectations, enhance innovation and improvement in the firm's marketing and better sales.

Swing stakeholder management strategy should be adopted by way of cautious collaboration especially when the dimensions of both potential threat and potential cooperation are high. This can be enhanced through the alliance partners, potential customers, or prospective suppliers which govern stakeholder interactions. There is need to have stakeholder engagement to promote the development of shared goals for successful organizational leadership to enhance stakeholder networks and links with the range of external stakeholders to engage with brands and organizations matters. The firms should endeavour to understand the legitimate concerns of stakeholders by adopting a proper two-way communication for regular feedback and updates being incorporated in the plan to enable the process and create the necessary visibility.

Proposed Areas for Further Research

In this study, the research focused on the role of stakeholder management strategies on the performance of smallholder tea sector in Kenya. A replica of this study can be carried out with a further scope to include agriculture and manufacturing sector and see whether the findings hold true. Future studies should apply different research instruments like interview guide, focus group discussions to involve respondents in discussions in order to generate detailed information which will help in bringing out better stakeholder management strategies to enhance performance of firms in Kenya. Conceptual model of this study can also be extended by considering other aspects of external environmental factors since the current study limited itself to stakeholder engagement as the moderating variable. The finding of this study on the moderating effect of stakeholder engagement on the relationship between stakeholder management strategies and performance of tea sector showed significant moderating effect. Future research may replicate this variable in similar study to find out whether the finding is different from the current results.

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