MOUNTEX

1. Name: Mountex ((Originally Nanyuki Textile Mills) Ltd.

2. Location: Nanyuki, Kenya.

3. Primary Products: Production of kanga/lesso (wrapper) (50%);
Yarn and other textiles (50%).

4. Secondary Products : Contract manufacturer for products like canvas.

5. Principal Shareholders:

1974	Lonrho	100% .
1975-1998	GoK Treasury	48%
	EADB	21%
	DEG	21%
	DFCK	10%
1998 April	Nyanza Spinners and Weavers Mill	100%

6. Size (April 1998)

No. Employees	800
Annual Sales	Ksh. 300 m.
Fixed Assets Value	Ksh. 200 m.
Net Profit/Loss	Ksh. 0 (!)
Turnover	Ksh. 300m (1994 Ksh. 250m.)

7. Brief History of Company:

Lonrho found this operation as Nanyuki Textile Mills in 1974. Within a year it went into receivership. Since the government wanted the company in the region, it took it over and renamed it Mountex in 1975 with the shareholding shown above. It was a pure parastatal and mangers were appointed for political reasons and not managerial competence. Its main products, lessos, were badly designed and did not respond quickly to the market. By 1990, it had accumulated losses of Ksh. 800 m. The shareholders/debenture holders agreed to change the loans to share capital and income notes. The company was left with Ksh. 120m loan to pay within five (5) years. It had 1300 employees. In 1991, Rehabilitation Advisory Services were brought in to restructure the company. RAS reduced staff to 1000 and identified AMSCO to provide two managers, a Chief Executive and a Factory Manager. These were put in place in 1993 for a three year contract. However they did not turn the company around. Monthly sales dropped from 725,000 to 289 metres between January 1993 and July 1994. By October, 1994 the company was technically insolvent and a receiver was brought in. Only Ksh 6.6m of the Ksh. 120m loan was paid, interestingly from a bank loan of Ksh. 10m!. He fired the AMSCO managers immediately. He reduced staff to 500 by end of 1994. However, by the end of the first quarter of 1995 staff were built up to 800 as more relevant staff were hired. Staff has remained the same to date. He reduced operating cost. Rehabilitated machinery from internally generated cash. Aggressively marketed newly designed kangas and bed sheets. Improved the recovery rate from 71% to 91%. Debt was reduced from Ksh. 130m to Ksh 68m.

<u>8. Reasons for Breakdown of Relationships with AMSCO</u>

a. Original Assessment No data found

b. Personnel
1. The Chief Executive clashed with owners and was accused of incompetence both in the marketing area for which he had been hired as well as in acting as a chief executive. This view is widely shared by other AMSCO related people not involved in the company Does not appear to have had management experience and sensitivity to local nuances based on scattered documents found in files.
2. The Factory Manager was accused of blowing a major deal by one of the board members with strong professional reputation and started to threaten resignation within eight months of employment.
3. Both managers did not appear to have addressed the products design and quality issues.
4. Both were not supported by the marketing manager.

c. Financial Capitalisation was low. Turnover was low.

d. External Liberalisation brought competition which was only addressed during receivership.

<u>9. Policy Implications and Recommendations</u>

First, although no data is systematically available on the diagnostic phase before AMSCO take-over, it is possible that no systematic work was done. It is surprising that a company with such a bad financial track record should have been taken into the AMSCO portfolio when liberalisation was afoot without working out a privatisation formula..

Even if AMSCO management was to be put in place in such circumstances, the issue of capitalisation should have been raised. If none was forthcoming then AMSCO should not have put managers in.

Clearly the managers put in did not fit with owners. One of the Board members felt that they were essentially “tourists”. The mangers on their part felt that they were not appreciated by the owners. There is evidence they were not supported by the marketing manager whose orientation was to the ‘’Indian” businesses sector whilst they sought to build links to the “European” sector. Ironically the main consumers of major products, lessos, were Africans, ignored by both parties in trying to expand sales.

Recommendations of this case study is that there should be more systematic diagnosis of a company before placing managers in place. Second managers must be selected with care. Competence and attention to nuance must be central in this. A chief executive who sends to the board hand written matter in the electronic age clearly is a dinosaur who belongs to another age. In this case many in the AMSCO family regionally think that the manager who should have been the Chief Executive was the one used as a factory manager.

Sources: Primarily the public receiver backed by industrialists in the region and ex and present AMSCO related managers in the region.