

**STRATEGY DEVELOPMENT PROCESSES AND FACTORS
INFLUENCING THEM AT KENYA PIPELINE COMPANY LIMITED**

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TABLE OF CONTENTS

Declaration.....	i
Acknowledgement.....	ii
Abstract.....	iii
Table of contents.....	v
CHAPTER 1: INTRODUCTION.....	1
1.1 BACKGROUND.....	1
1.1.1 <i>Strategy Development</i>	3
1.1.2. THE CONTEXT OF STRATEGY IN PUBLIC SECTOR ENTERPRISES.....	5
1.1.3. <i>The Kenya Pipeline Company Limited</i>	7
1.2 STATEMENT OF THE RESEARCH PROBLEM.....	10
1.3 OBJECTIVE OF THE STUDY.....	12
1.4 SIGNIFICANCE OF THE STUDY.....	12
CHAPTER 2: LITERATURE REVIEW.....	14
2.1 INTRODUCTION.....	14
2.2 THE CONCEPT OF STRATEGY.....	14
2.3 STRATEGY DEVELOPMENT AND PROCESSES.....	16
2.4 FACTORS THAT AFFECT STRATEGY DEVELOPMENT.....	23
CHAPTER3: RESEARCH METHODOLOGY.....	28
3.1 STUDY DESIGN.....	28
3.2 DATA COLLECTION.....	28
3.3 DATA ANALYSIS.....	29

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSION.....	30
4.1 INTRODUCTION	30
4.2 STRATEGY DEVELOPMENT	30
4.3 MISSION AND OBJECTIVES.....	33
4.4 STRATEGY DEVELOPMENT, EVALUATION AND CHOICE.....	35
4.4.1 Environmental analysis	36
4.4.2 Internal organizational analysis.....	41
4.4.3 Consideration of strategic alternatives	43
4.4.4 Choice of strategy.....	46
4.4.5 Strategy implementation.....	47
CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATION.....	50
5.1 SUMMARY.....	50
5.2 CONCLUSIONS	51
5.3 RECOMMENDATIONS.....	52
5.4 SUGGESTIONS FOR FURTHER RESEARCH	53
REFERENCES	54
GLOSSARY OF TERMS	60

ABSTRACT

The motivation for this research project was the researcher's deep desire to establish the strategy development processes and factors influencing them in Public sector enterprises (PSE) especially during the time when chief officers in these corporations were for the first time, required to sign performance contracts. A fundamental expectation of these performance contracts was to provide a basis for evaluating the performances of these officers and by extension a justification for contract extensions and rewards or for contract termination as the case may be determined.

In setting out the goals to be achieved and the time frame in which the stated objectives are to be met, the strategy to accomplish the goals takes on an integral role. Being held responsible for the performance of PSE's, what factors would affect the strategy development process?

In public sector enterprises, profitability as an objective is usually relegated in importance and seldom features as such. Indeed, amongst the objectives for which the KPC was formed, none of these relate to profitability. A primary objective of any Government is to create employment for its citizenry and this tends to run counter to the profit objective. It is for this reason, amongst other things that profitability as an objective occupies an obscure position.

Nonetheless, the performance of the chief officers needed to be evaluated In this context therefore, how did the corporation develop its strategy and what are the factors that influence the development of the strategy.

This study employs the case study design. It facilitated the collection of complete and corroborative information from multiple sources within the organization. The study primarily

involved personal interviews using an interview guide and secondary data in the form of the existing corporate strategic plan.

The strategy development processes at KPC have for the most part been a combination of planning, design and emergence. The design strategy development process has gained particular prominence during the last ten years during which time the performance of PSE's has come under intense scrutiny both from the major shareholder, in this case the government, and the public

The factors that influence the strategy development process are political considerations, the desires of government, the preferences of the CEO and the influences of the regional dynamics exerted by regional countries and trading blocks like the East African Cooperation and Common Market of East and Southern Africa (COMESA.)

As a commercially oriented company, the strategic objective of KPC is expected to be pegged to profitability. As a state-owned utility company that is 100% owned by the government, her objectives are not always as clear as would be the case of a privately owned, profit motivated enterprise.

CHAPTER 1: INTRODUCTION

1.1 Background

The concept of strategy revolves around deliberate attempt, by an organization, to obtain sustainable long-term advantage in the delivery on expectations of stakeholders. In the words of Sun-Tzu's *The Art of War (4th century BC)*, Strategy is the great work of an organization. It is the key to survival or extinction. Its study cannot be ignored. Strategy is about winning. It is not a plan nor a detailed program of instructions, but a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization that enable it achieve superior performance. According to Johnson and Scholes, (1999), strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through the configuration of resources within a changing environment to achieve the objective of meeting the needs of markets and to fulfill stakeholder expectations.

The strategy of an organization is affected not only by environmental forces and resource availability, but also by the values and expectations of those who have power and influence in and around the organization. Whether strategy is the result of rationality or it is influenced by personal considerations, the culture of the organization or structure of the organization, what is generally accepted is that for an organization to succeed, it must have strategy. That is to say that there must be a consistency and coherence to the decisions taken (Johnson and Scholes, 1993).

The business operating environment has undergone tremendous change over the last few decades that have necessitated business managers to adopt proactive strategies for survival, growth and development. It has been observed that those organizations that have ignored these changes and failed to react or to proact, have been compelled to shut down or to drastically curtail the scale of their operations (Thomas Hayhoe and Ass, 1990).

In the past, from a global perspective, the vast majority of organizations in Kenya operated in a regulated, privileged and protected environment (Minister for Finance, Kenya 2003). This position was to change fundamentally during the 1980's when technological advances greatly reduced the trade barriers of communication and geographic distances (World bank report, 1991) The liberalization and globalization of the world economy further reduced these barriers allowing for foreign companies to participate in domestic markets. Under the protected trading regimes, it was common place to find lethargic over-established organizations whose only claim to existence was their often monopolistic and protected status. Bhaya (1967) notes that Public Sector Enterprises (PSE's) operate in a social milieu where a number of external factors are continuously impinging upon and affecting internal corporate logic and motivation. As such, there was no urgency to improve performance through efficiency and quality operations. To be successful in the global trading environment, companies today have to compete not only against domestic competitors, but also against the best companies in the world (Drury, 2000).

The level of competition, heightened by the twin concepts of privatization (and deregulation) and globalization (and liberalization) have forced companies to adopt multifaceted strategy selection process. This has been enhanced by the introduction of multi-party politics, the structural adjustment programs and advances in technological

developments (avoid using person names. Use title instead.). More recently, companies have had to conform to public demand for good corporate governance (Kangoro, 1998) in the wake of mega scandals such as that of Enron. PSE CEO's such as that of the KPC, find themselves obliged to sign performance contracts with explicitly spelt out targets and measures of performance. The result of the foregoing has been greater focus on innovation, a striving for continuous improvement, total quality management, value chain analysis and benchmarking for non-competitive advantage activities.

1.1.1 Strategy Development

Various theories have been advanced about the development of strategies in organizations. The two prominent schools in this regard are the planning and design school and the emergence strategy school. (Johnson and Scholes) The planning and design school holds that organizational strategy is the result of deliberate planning and design and constitutes deliberate attempt to analyze the context of the business environment and the organization. This is achieved by analyzing the political, environmental, social and technological environment in which the business operates to establish the opportunities and threats that exist and in respect of which the organization needs to take advantage or to prepare mitigating strategies against, respectively. This school also holds that an internal evaluation of the business is performed to determine the strengths and weaknesses of the organization. These strengths constitute internal capabilities including organizational reserves, borrowing capacity, personnel and soft assets such as communication and knowledge management that enhance the realization of the organizations' objectives. Resulting from the foregoing analysis, a strategy is formulated

that takes into account the environmental analysis visâ a vis the organizational capabilities that best enables the realization of the organizational objectives.

The emergence school of strategy development holds that strategy development is the result of continuing organizational decisions that take a form or pattern over time. This school contends that strategy is not the result of a deliberate plan, but rather an emergence of a consistent and coherent pattern of decisions and actions by individuals in the organization.

In effecting an environmental analysis and diagnosis, organizations attempt to determine the impact of significant environmental factors on the objectives of the organization and to accord time to management to anticipate opportunities and to plan to take advantage of them, on the one hand. On the other hand, it helps to develop an early warning system to prevent threats or develop strategies that can turn a threat into an advantage or provide mitigation against the threats. Cite sources of your info.

An environmental analysis and diagnosis consists of examining the economy at present and in the anticipated future. Factors considered in such an analyses include the stage of the business cycle; the inflationary trend in prices of goods and services; the monetary policies including interest rates and currency stability; fiscal policies and tax rates. It also includes examining the demographic factors such as changes in population, the stratification of the population and the income distribution. Geographic factors considered include target areas of operation and relocation; climatic and ecological concerns; and the terrain and accessibility of the product or service. Social factors considered include considerations of acceptability of the business proposed in the target population.

In examining the technological environment, management effectively searches the environment for changing technology affecting the organizations raw materials, operations, products and services that could have profound impact on the organizations ability to realize its objectives. Also considered are suppliers and the availability and cost of raw materials; availability and the cost of energy; availability and the cost of borrowing and the availability and the cost of labor. In analyzing the competitiveness of the industry, the management considers the ease of exit or entry into or from the business; the availability of substitutes; the major strategic changes to current competitors. The Government effect on the operating and business environment is considered to determine the effects on the business and operations of the firm

Management also examines the capability of the firm by performing strategic advantage analysis to identify current strengths and weaknesses in the organization and probable future strengths and weaknesses and determine actions necessary to close the gap between desired and expected outcomes in the circumstances. Management considers the marketing and distribution factors that include positioning, price, product and promotion; Research and development factors and its capability to sustain ongoing business. Examination is made of production and operational management factors and their ability to provide the basis necessary for achieving the organizational objectives; corporate resources and personnel factors necessary to effectively support the organizations functions and realization of objectives.

1.1.2. The context of Strategy in Public Sector Enterprises

Public Sector Enterprises (PSE's) denote those corporate bodies in which the government holds at least 50% of the equity and those enterprises whose operations are otherwise

controlled by the state. PSEs have in fact been in existence in Kenya since the colonial era when major transport and communication corporations such as the Uganda railway, which is presently known as the Kenya railways, were established. Other such PSE's included the East African Posts and Telecommunications the East African Ports and Harbors and the East African Airways. As a consequence of the government change during their existence in 1963, the first independent government of the Republic of Kenya inherited many of them. Among those were that covered a broad spectrum of the economy including agriculture, transport and communications, trade and commerce, education and research and revenue collection (Sessional Paper No. 10.1965). Many of their original objectives are yet to be realized today.

In spite of what was substantial and heavy government investment in these enterprises, the performance of many of them, if not all, has been dismal (Economic Recovery Strategy for wealth and employment creation) and account for 12% of the country's total indebtedness, (Trivedi, 2004). That PSE officials are beholden to the whims of their ministers, as noted by Heclo and Wildavsky (1974), suggests that the strategy development process could be less than objective and be highly subjective to acceptability by ministers. The particular problems envisaged are related to accountability, good corporate governance, objectivity and independence. Indeed, the problem of accountability has many facets as observed by Herzlinger.

PSE's such as KPC are 100% owned by the government. The funding for the PSE's are made out of the public funds that governments hold and control, alongside all other national assets, on behalf of the public and general citizenry. The fiduciary relationship that exists requires and indeed anticipates that government and by extension officers appointed to act on their behalf, will act in the best interest of the owner (the public). In

this context therefore, a major question arises with regard to strategic management and performance. Schacter, M (2000) observes that citizens demand accountability in return for powers granted to the executive to raise and spend revenue.

The management of PSE's has been found to be a major impediment to performance (Oyugi Commission, 1997). Other commissions whose findings indicated that PSE's were poorly managed include the Ndegwa Commission (1971); the Waruhiu Commission (1980) and the Ndegwa P Commission (1981). The Waruhiu Commission report concludes by stating that the poor selection of civil servants appointed to head PSE's has been the root cause of poor management in most of these organizations. Following an analysis of the performance of African PSE's in 1991, the World Bank¹ stated that PSE's present the most urgent problems of public sector performance. It concluded by stating that African governments should not only examine ways of increasing operational efficiency of PSE's, but should also examine the possibility of placing greater reliance on the private sector. In cases where the appointing agent for the chief executive of PSE's, also appoints the auditor general in charge of corporations and is also responsible for reprimanding offenders through the appointment of the CEO of Kenya anti-corruption authority, then accountability may suffer as a result of the CEO's being beholden to the appointing agent (Waruhiu Commission, 1980).

1.1.3. The Kenya Pipeline Company Limited

The KPC was established in 1973 by the Government of Kenya (GOK). It is a fully owned state enterprise and is one of those that have been specifically identified and earmarked for privatization under the proposed Privatization Bill, 2004. The first of its mandates at incorporation was and still is, To build a pipeline for the conveyance of

petroleum or petroleum products from Mombasa to Nairobi, for the account of the Company or the account of others and any other pipelines in east Africa as the company may determine. The subsequent one is: to manage, own or operate such pipelines and any other pipelines any other pipelines (whether or not built by the Company) and all ancillary pumping, storage and other facilities; and such other plant, equipment and other installations, movable and immovable as the Company may consider desirable and to manufacture, construct maintain or modify any of the same.

Since then and up to the present time the Company commercially operates a pipeline system for the transportation and storage of refined petroleum products from Mombasa to Nairobi and further to the Western cities of Kisumu, Nakuru and Eldoret. Since the construction of the initial phase of the facility, some expansion has occurred in the East at Mombasa, the point of the intake of the facility and westwards. The over-riding objective that motivated the incorporation of the company was the desire by the GOK to establish an efficient, reliable and safe mode of transportation for the product from the port of entry towards the hinterland. It was envisioned that this would spur economic development, reduce the potential danger on Kenyan roads and lead to reduction in the wear and tear of the roads caused by the presence of heavy road tankers (KPC corporate strategic plan, 2003/4 to 2008/9). The total length of the pipeline is currently 863Kms and consists of Line 1, a 450km 14" line from Mombasa to Nairobi, which became operational in 1978. Pump stations are located at regular intervals of 55kms. Line 2 and 3 consisting of 8' and 6' pipelines runs from Nairobi-Sinendet-Eldoret and Sinendet-Kisumu respectively and became operational in 1994. The overall KPC facility also consists of storage tanks that constitute a total capacity of 475,409m³, including operational or dead stocks. These are situated as KOSF, MIA JKIA, NT, Nakuru, Eldoret and Kisumu. A distinguishing feature

of the Western Kenya pipeline extension (WKPE) depots of the facility is that they have loading facilities that enable the company load product onto the shippers trucks directly.

Other than the Companies Act, Cap 486 of the Laws of Kenya and the Memorandum and Articles of Association, the operations of the company are governed by the Transportation and Storage (T&S) Agreement that was signed between the KPC and its major clients (referred to as Shippers). This agreement sets out operational aspects of the facility. Save for the KOSF and the WKPE expansions, which occurred in 1986 and 1994 respectively, there is at present the on-going and fairly advanced progression of the pipeline extension to Uganda. There is also the construction of the Truck loading facility in Mombasa. Finally, and not least under any consideration, is the proposed Liquefied Petroleum Gas (LPG) project which is envisaged to consist of an LPG import and storage facility. These are all strategically significant projects and proposals as far as the future operations of the KPC are concerned. The proposed expansion to Uganda will enhance profitability and competitive positioning. The proposed LPG handling and storage project can be expected to enhance KPC's competitive positioning while the Mombasa loading facility that is proposed for Mombasa, is expected to lead to greater profitability (KPC corporate strategic plan 2003/4 to 2008/9).

The Kenya Pipeline Company Limited has been subjected to fundamental changes in its operating environment. Prior to deregulation of the petroleum industry in 1994, KPC operated in a regulated environment when all refined petroleum product transportation business had, by legal notice, to be made through the pipeline. The foregoing implied that there was a stable and predictable product throughput, a stable and predictable cash flow, a future that was largely predictable, strategic planning and budgeting tended to be

secondary often-annoying routines. Capacity building and such other “soft” asset enhancement was more a rewarding tool than a strategic action tool.

The changed environment brought about by increased demand for good corporate governance and globalization has over the period, led to strategic planning. The company has developed a deliberate business strategy for the future aimed at business expansion and consolidation of the market position; diversification of business as part of business continuity planning; cost cutting and efficiency improvement measures; continuous and effective performance measurement and revenue enhancement through optimal asset utilization.

There have also been efforts towards establishing inter-modal transportation capability at all depots (KPC corporate strategic plan): determination of staffing requirements and focusing training and development towards value creation; holding stakeholder meetings and conferences to establish the degree of stakeholder satisfaction as a means of developing effective strategy.

1.2 Statement of the Research Problem

In PSE's, profitability as an objective is usually relegated in importance and seldom features as such (GOK Sessional paper, 1965). Similarly, amongst the objectives for which the KPC was formed, none of these relate to profitability (KPC Articles of Association). It is understood that a primary objective of any Government is to create employment for its citizenry and this tends to run counter to the profit objective. It is probably for this reason, amongst other things that profitability as an objective occupies an obscure position. Many PSE's were established for specific purposes. These ranged

from Africanization of the economy to providing venture capital. Many of these organizations are actually in a dismal state today and hardly make impact on their intended objectives, much as they are still kept in existence (ERSWEC^{iv}). It is no secret that every government in power appoints its own people to run these PSE's. It has been argued that these enterprises present good opportunities for planting political party supporters as a reward to them when a political party assumes power.

KPC's operating environment has been and continues to be one of near monopoly. In essence, the nature of the business of KPC is such that the colossal amount of initial capital expenditure is prohibitive and forms a kind of entry barrier. (Re Porter's five point theory for Industry analysis). Indeed, at the inception of the KPC idea, the private sector declined to take up equity in the project. The WKPE cost four billion shillings whilst the Uganda extension is estimated to cost six billion shillings. Once such a facility is in place however, the likelihood of a similar one being constructed is minimal when considerations of economic justification come into play. This situation gives rise to a near monopoly status. As with most monopolies, a monopolistic status gives rise to complacency and insensitivity to the wants of the consumers (Kotler, P 2001).

Government as a player in the commercial areas has a broad scope of interests and objectives. As Ogeto (1994) notes, PSE's have not been making as much profit compared to private sector companies for a given amount of investment. He further notes that in developing countries, PSE's have grown beyond their original purpose, size and objectives without any effort to re-define or clarify these objectives; in other cases, the objectives have been unclear. In Kenya, a number of PSE's have collapsed due to poor performance. These include the Kenya National Assurance Company, the Kenya Meat Commission, about which efforts have been made for resuscitation, and the African Tours

and Hotels. Efforts to improve the performance of PSE's include the formation of the Parastatal Advisory Board in 1999; the enlargement of the Inspectorate of PSE's; the formation of the Kenya anti-corruption commission; the introduction of the Privatization Bill and most recently, the introduction of performance contracts for CEOs and Chief Officers of PSE's.

Strategy development at KPC is subject to additional influences. The corporation is subject to the State Corporations Act and being in the energy sector, means that the parent Ministry of Energy vets and approves all investment decisions. Current government regulations require that all financial transactions in the cases of PSE's, must obtain treasury approval.

Since these are requirements and if they represent the various pressures faced by PSE Executives, then this would beg the question of the strategy development process of the KPC.

This paper is an attempt to look at and review the context of strategy development by the organization in the context presented.

1.3 Objective of the Study

The objective of the study is to establish the strategy development processes and factors influencing the processes.

1.4 Significance of the study

A significant reason for carrying out the study at this point in time is that there are concerted efforts at the moment to implement Performance Contracts for PSE Chief

Executives and senior officers. The PS for Personnel management, under whose portfolio the exercise falls, said that the government has embarked on public sector reforms with a view to transforming the mandates, structures, procedures and performance of the public service in order to effectively play its enabling role in the socio-economic development agenda of the country (sensitization workshop, KSMS 2004)

The Economic Recovery Strategy for Wealth and Employment Creation (ERPWEC) 2003-2007 identifies state corporations as one of the sectors that need urgent reforms. The strategy paper notes that the problems attributed to PSE's emanate from among other things lack of clear performance contracts that would facilitate monitoring and evaluation of performance of chief executives and other senior officers of PSE's. In the budget speech of June 2003, the Finance Minister reiterated the government would in future hire chief executive on the basis of performance contracts. KPC is one of those PSE's that have been selected to pilot the implementation of the new directive.

The significance of the study therefore is that policy makers and managers of the PSE's will understand the strategy development and selection process. This may be useful in setting performance targets and measures; providers of capital will understand the strategy development and selection process at KPC and investors will be able to make well informed decisions regarding their investment. I will obtain know ledge in the area of strategy development and selection in PSE's.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This section of the paper will cover a review of the available literature on the concept of strategy and strategy development. It will also look at factors affecting strategy development.

2.2 The Concept of Strategy

The concept of strategy is built around winning! Strategy helps to achieve success whether in business or other wise. Success, in this context refers to the realization of objectives that are desired. Effective strategy is formulated around four common factors. These are that the goals and objectives are simple, consistent and relate to the long term, there is profound understanding of the competitive environment, there is an objective appraisal of the resources available and that there is effective implementation (Black well publishing, 1980). The concept of strategy negates the contention that superiority or initial endowments or skills and resources are typically the determining factors of success!

Indeed, 2002 years ago, *Sun Tzu* wrote:

Know the other and know yourself;

Triumph without peril.

Know nature and know the situation

Triumph completely.

(*The Art of War*, Sun Tzu, 4th Century B.C.).

The task of business strategy is to determine how the firm will deploy its resources within the environment to satisfy its long-term goals and how to organize herself to implement that strategy. Johnson and Scholes, (1999) observe that there should be a strategic fit. That for a strategy to be successful, it must be consistent with the firms goals and values, with its external environment, with its resources and capabilities and with its structure and systems. Lack of consistency between the strategy pursued by a firm and its internal and external environments is a common source of failure.

The evolution of business strategy has been driven more by the practical needs of business rather than by the development of theory. Bruce Henderson, founder of the Boston Consulting Group observes:

Strategy is a deliberate plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between you and your competitors are the basis of your advantage. If you are in business and are self supporting, you already have some form of advantage, no matter how small or subtle. The objective is to enlarge the scope of your advantage, which can only happen at someone else's expense.

This thinking, in the 1980's and 1990's, marked the shift from corporate planning towards strategy, away from focus only on the external environment, to focus on the

internal capabilities and competencies. Developments in the resource-based view of the organizational competencies and capabilities pointed to the firms internal resources and capabilities as being the primary source of profitability and the basis for the formation of longer term strategy. Prior to this period, the emphasis was a quest for optimal positioning within the environment. Indeed, the focus upon internal resources and capabilities has emphasized the differences between companies and the need to exploit these to establish unique advantages.

Porter, M, (1980) notes that competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. Strategic management theory suggests that organizations generally weave their strategies around a generic strategy that is either one of cost leadership, differentiation or focus, from which emanates the grand strategy that is adopted by the organization. Further, it is ascertained that strategic analysis and choice is the outcome of the strategic management process. Chandler, (1962) defines strategy as the determination of the basic long term goals and objectives, the adoption of courses of action and the allocation of resources necessary for carrying out the goals.

2.3 Strategy Development and Processes

Three views of strategy development are that the strategy should result from formalized strategic planning, is developed through the direction of an individual or group, but not necessarily through formal planning or is the result of deliberate development achieved by learning through doing. (Johnson and Scholes, 1999) Mintzberg *et al* (1998) distinguish between the Planning School and the Design School. Whereas the two forms share the common features of deliberate planning, the design school emphasized the need

for strategic fit between the environment and the organizational capabilities. As such, the process involved an appraisal of the organizations external and internal situations and the seeking of an optimal fit. Chandler, (1962) notes that the process of strategy development in the planning school is based on formal procedures and training and significant qualification. Mintzberg, (1987) notes that most successful companies do not start out with detailed strategic plans. That their plans emerge over time from the pattern of decisions they make on key aspects of their activities.

Managerial choice, preference and judgment play a role in the determining the organizations strategy within certain constraints. These constraints include culture. As noted by Eldridge and Crombie, (1974), national cultures refer to the unique configuration of norms, values, beliefs, etc. that characterizes the manner in which groups and individuals combine to get things done. Another constraint is political. Brown, (1995) notes that organizations often act irrationally, that their goals and objectives emerges through a process of negotiation and influence, and that they are composed of competing and shifting coalitions of groups and individuals. Handy, (1986) observed the tendency for individuals and groups to pursue courses of action that promote their interests, regardless of the organizations formal goals.

Pearce and Robinson, (2002) state that to achieve long-term prosperity, strategic planners commonly establish long-term objectives in the areas of² profitability, productivity, competitive position, employee development , employee relations, technological leadership and public responsibility. Grand strategies provide basic direction for strategic actions and indicate how long range objectives will be achieved. These are concentration, market development, product development, innovation, horizontal integration, vertical

integration, joint venture, concentric diversification, conglomerate diversification and retrenchment or turnaround, divestiture and liquidation.

The strategy selection decision analysis cycle represents different stages of analyses that lead to a decision about what strategy choice will be made between various strategies that are considered available. In considering the alternative strategies, the objective is to ensure the most appropriate strategy is chosen that enable the organization to maintain or improve its performance. Primarily defining the business of the organization and determining where it should be in the future does this. For a strategy to be selected, it must be suitable, feasible and acceptable. Strategic management alternatives are analyzed, cash flow projected, key indicators computed to address concerns and recommendations and ultimate selection, made wherefrom. According to Pearce and Robinson (2002), several alternative strategies are generated and systematically evaluated in comparative frame work. The quality of the ultimate choice is thereby logically enhanced. The business level strategy involves analysis of the match between the business's current strategic position and the major strategic opportunities and threats that exist or will exist in the envisaged period. The examination of the probable results of pursuing the current strategy in light of the new business-environment match, comparison of these results with tentative business objectives to identify major performance gaps and strategic concerns follow s.

The penultimate stage identifies alternative strategies in order to close performance gaps and confront (or avoid) strategic concerns and enables the evaluation of the alternatives and making strategic choice. According to Hill and Jones, (2002), the organization has to evaluate various alternatives against each other with respect to their ability to achieve the firms major goals. Available literature indicates that under the Thompson model, strategic

choices are arrived at through analysis, judgment, bargaining and inspiration (Nutts, 2002). It is noted however that the various options are best suited to different circumstances. Analysis on the one hand is recommended in cases where the both the objectives of the analysis and the means for it are known. It is assumed that the performance measures applicable from the objectives so desired will form the evaluation basis (Churchman et al, 1967) The judgmental approach is suitable to situations where the objectives of the exercise is identifiable but the not the means of obtaining the results. In such circumstances, Mintzberg et al, (1976) propose the use of an expert. It must be pointed out at this point that criticism has been leveled against the adoption of this method on the grounds that it can be used to legitimize or doctor the outcome to what is desired.. Strategy selection involves understanding the underlying bases guiding the organizations future strategy, generating strategic options for evaluation and selecting from amongst them (Johnson and Scholes, 1999).

The process of bargaining in strategy selection is recommended in circumstances where objectives being sought are unclear. According to Hackman, (1990) and Pfeffer, (1992), stakeholders negotiate and settle on a decision, which is then adopted. The initiative approach to decision making on the other hand refers to managers using their gut feeling to make strategic decision. (Steiner, 1979). This model proposes that long years of experience are a definite prerequisite for its adoption. This model of strategy selection is most suitable to situations where objectivity analysis is lacking. Ansoff, (1965) suggests that in the adaptive approach to strategy selection, a minimum threshold of values is established up-front and used to sieve through the various options. The option that best represents the desired objectives is subsequently selected. Miller and Friesen, (1978) indicate that the interests of internal and external groups result in the establishment of

group equilibrium. They observe that strategy selection follows the same direction as the dominant group interest.

Comerford and Callaghan, (1985) state that strategic decision-makers seek to understand the environment in which the organization operates and how these affect the strategy through a feedback mechanism. They conclude that there is indeed no best method of strategy selection for the enterprises, and that each selection should be contextual to the organization if it is to obtain optimal results. Kaplan and Beihocker, (2003) have a fundamentally different perception of strategy selection. They assert that strategic planning is about the preparation of management to make strategic decisions and that strategy selection is a real time consequence thereof.

Narain, (1979) in a thesis notes that the establishment and continuance of PSE's is a political decision and its operations are controlled at strategic points by a system where the politician has the final say. This position is supported by Caves, (1978) in a research paper who states that the Government may not always provide the support or protection which the PSE deserves and this may seriously affect the decision making process. Koske, K (2003) notes in his research on strategy development at Telkom (K) Ltd, that middle management, though responsible for strategy implementation, were not involved during the formulation stage.

Kioi, (2001) in a research on strategy selection in the dairy industry, found that market development formed the primary concern and focus of strategy selection. Another finding of this project was that product development is also pursued. The study found that the strategies are influenced by existing competitors and their strategies, the distribution infrastructure and the source of the raw material, in this case raw milk. An interesting

observation is that there have been attempts to integrate vertically so that the supply of raw material is guaranteed especially in low seasons. In this way the larger players provided storage facilities to the producers. The larger players in the industry were also found to adopt concentric diversification as a grand strategy. In majority cases, profitability was the long term objective.

In the motor vehicle dealerships and franchises, Kombo (1977) in a research studied the strategic responses of firms in the liberalized operating environment of the upsurge in purchase of second hand reconditioned and used cars. He found that before liberalization, profitability and market development were primary objectives and strategies respectively. Subsequent to liberalization however; survival and the quest for improved efficiency took priority. Bett (1995), researched into the strategic marketing of dairy products in Kenya. The study established that firms in the dairy industry had made strategy adjustments in the marketing mix components in response to the changed trading environment.

Gakombe, (1992) studied strategic choices adopted by private hospitals in Nairobi. He found that most of them have adopted cost leadership as the generic strategy. In most of the cases, profitability is the prime objective that is pursued through a concentration strategy. He also found that diversification is the least pursued option due to the substantial resource requirements. Factors that most influence strategy selection is found to be ownership and competition from other hospitals. Ndiao (2001), in a thesis on factors affecting strategy selection in NGOs found these to be leadership, organization structure, management, mission and scope and the donor.

Good corporate governance aims to ensure that all actions of the organizations are in effect geared to wards benefiting the organizations and the owners interests. That the appointing authority uses them to re ward cronies begs the question, how suitable are these men and women for the jobs to which they are posted? As the Waruhiu commission report, (1980) found, this is the cause of poor PSE management. Since the last general elections held in December of 2002, only one public advertisement of the position of CEO of a PSE (Daily Nation, June, 13 2003) had been done. It can be reasonably accurately concluded there from that the recruitment process is more subjective than objective. In terms of objectivity, the question that arises is just how objective a CEO can be if he or she is beholden to facilitator, umpire and benefactor all rolled into one? The PSE's have boards that are responsible for their performance. In many cases, the appointing agent of these boards is the same as that which appoints the CEO (Waruhiu, 1980).

The independence of the board of directors and CEO in carrying out the functions of the PSE is an imperative of good performance. *The state corporations Performance Contracts Regulations 2004* provide that every PSE shall have all the powers necessary or expedient for the performance of its functions. Whether these powers necessary are availed or not is not clear at this point. What may be asked however regards the suitability and feasibility of the strategy.

Once the strategy has been chosen, the challenge shifts to implementing it. This is achieved by a configuration of resources and the organizational structure to allocate resources and organize to match the strategy and also policies and administration with the objective of matching the functional policies and administrative style with the strategy (Glueck.WF and Jauch LR 4th Ed)

Controlling the implementation of the strategy is achieved by evaluating the results of the strategy against the objectives of the organizations to ensure that the strategy and implementation will meet objectives. Performance targets and standards are set; the actual position in relation thereto is measured, deviations analyzed and modifications executed of either the target or the implementation methods as appropriate. (Glueck.WF and Jauch LR 4th Ed)

2.4 Factors that affect Strategy Development

There are in effect many factors that influence the choice of the course of action and indeed the strategy that an organization will adopt. These factors include the ownership structure of the organization and the mission and scope of the organization. Indeed not-for-profit organizations will tend to select strategies that are dissimilar to those of profit ones. Child and Smith, (1987) note that sector practices and norms combine to determine the path a firm must take for its future success. National objectives, practices and cultures also play a role in strategy development. Hofstede, (1980/90); Leadership, here referring to the style and type of leadership whether autocratic or participatory; stakeholder preferences and environmental context; and organizational politics.

According to Choudhry and Samsud, (2001) institutional ownership affects the corporate productivity both directly and indirectly through the interplay of a set of strategic choices. Product/market development, research and development intensity, capital intensity and leverage. A case pointed out is the Japanese firms many of whose ownership is concentrated in a few large institutions that represent banking and insurance concerns. The relationship between the shareholders and the firms is hence more complex than simply investment for capital gain, and thus represent durable, solid and firm

relationships. Porter, (1992) notes that shareholder in effect plays a dual role of lender and service provide.

The emphasis on long term success is intractably embedded in the plans of the organization and capital enhancement through training, innovation, development and growth are imperatives. Studies carried out in other parts of the world especially in Europe also indicate that managerial priorities were the interests of shareholders and owners. Indeed, managerial finance has long adopted shareholder value maximization as the prime objective of majority enterprises. Poole et al., (2003) suggest that managerial shares tend to compel managers to focus on consumer interests in strategic decisions and choices. This is supported by what has come to be known as the marketing concept that holds that consumer interest should be the driver of business decisions. (Kotler, 2001)

The mission and scope of the organization are *the raison d'etre* or the reason for existence of the organization. In many cases, the scope is stipulated in the Articles of Association of the enterprise. What distinguishes one organization from another in the industry is the mission which defines the way that the scope and objects of the organization will be fulfilled. Oster, (1995) states the mission explicitly states the core values of the organization or the founder of the business. It therefore establishes the fundamental scope of operations in terms of whether this is to be long term or short term, diversification, differentiation or focus, in this way influencing the strategic decisions of the firm. The centrality of the mission can only therefore be underscored.

Culture, as noted by Deal and Kennedy, (1982) rather than structure, strategy or politics, is the prime mover of organizations. Eldridge and Crombie, (1974) observe that culture is that unique configuration of norms, values beliefs etc. that characterize the way in which

groups and individuals combine to get things done. Peters and Waterman, (1982) stressed the importance of corporate heroes in shaping the fortunes of excellent companies. Handy, (1986) observes that there seem to be four types of culture; power, role, task and person.

In PSE's the strategy tends to have a strong positive correlation with the personal characteristic of the CEO in office at a particular time (Oyugi Commission, 1997). Their strategies are also influenced by national objectives (Bhaya, 1967). The absence of performance contracts for CEOs means that each operates in some kind of free fall with each determining their mission (Caves, 1978). The reality however is that they hold these positions in fiduciary position and should therefore pursue the mission of the public, who is the owner. The tragedy however is that the owner can seldom reprimand or punish the agent who may feel that they owe allegiance to the appointing agent rather than the owner (Public sector reform program). If therefore the appointing agent's interest is at variance with that of the owner chances are that those interests of the appointing agent will prevail. As Heclo and Wildvsky, (1974) found, public managers have no objective of their own and they simply follow the instructions of their political masters. To the extent that these instructions are incomplete or unclear, public officials will fill in the details by second guessing the ministers mind.

Leadership is about giving direction to the organization. It is doing the right thing! Yukl, (1994) notes that it is a major factor that distinguishes successful organizations from less successful ones. The leadership therefore will provide guidance in making strategic choices. It is about and forms the basis for making strategic decisions, communicating the same across the organization and implementing it. According to Cartin, (1999), the essence of leadership is connecting people with the purpose of the organization. That

leadership plays a significant role in the selection of strategy is not in doubt. As noted by Bourgeois, (1984) most senior members of an organization have significant impact on expenditure decisions.

Ring and Perry, (1985) noted that in the public sector, strategic choice is influenced by politicians. Schneider and Arnaud de Meyer, (1985) found that the attitude of management can have profound effect on the strategic decisions of management. They conclude that though an organizational SWOT analysis results in a fairly objective assessment, final decisions are often affected by subjective considerations. Porter, M (1999) notes that the environmental uncertainty can be objectively assessed, but Duncan (1972) notes that the environment will be perceived differently by different managers. It can therefore be reasonably concluded that understanding the relationship between the different perceptions of the organization and the environment and the interpretations of events and strategic responses of managers is desirable.

In PSE's too, risk avoiders will favour the conservative strategies that minimize risks where this is the shareholders preference. In this context, as observed by Heclo and Wildavsky (1974), the managers will pursue convenient strategies rather than appropriate ones. Strategic decisions have the characteristics of being long-term and often involve large amounts of investments (Pearce and Robinson, 2002), Levicki, (1996) notes that whatever the direction, strategy analysis must be carried out before making any important decisions. To achieve long-term advantage over competitors, various strategies have to be evaluated before a choice is made (Weirich and Koontz, 1993). In arguing the case for the necessity of a strategic fit, Johnson and Scholes (1999) suggest that for a strategy to be chosen it must be acceptable to the stakeholders and other interested and influential groups. If not, is it possible to stretch the resources and capabilities of the organization to

effect the strategy? The strategy should have a fall back plan that allows the firm to respond to aggression from competitors.

As observed by Johnson and Scholes, (2002) the final choice of strategy and prioritization may be difficult as stakeholders may place desirability over suitability. On the other hand, if the preferred strategy is successfully implemented, it will be rationalized as appropriate. The role of judgment in strategic choices must not be overlooked since subjectivity and judgment play a significant role in strategy selections. Other scholars have argued for the profitability of a particular strategy as the determinant of desirability.

The Oyugi commission (1997) also found that political and structural factors affect the performance of PSE's, where performance is seen in the light of strategy development, selection and implementation. The World Bank report, (1991) states that the public sector has been the core of the stagnation and decline in growth in Africa. Fadahunsi (1996) further notes that PSE's are faulted for their inefficiency, non-profitability and for resource wastage.

Nonetheless, by the 1990s there emerged consensus that was too much anti-public sectorism and the culmination was a World Bank Report, (2000) conclusion that PSE's had great potential to reduce poverty and that good PSE's are associated with higher income growth, national wealth and social achievements.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Study Design

This study employed the case study design. A case study was the methodology chosen for its superiority in suitability and adaptability in performing a complete and in-depth contextual analysis of the process of strategy development in the Kenya pipeline Company Limited. The case study will provide the detail considered necessary to obtain valuable insight in answering the research problem. Further, it facilitated the collection of complete and corroborative information from multiple sources within the organization.

3.2 Data Collection

The study collected data from officers in the Corporate Planning and Business development, the Engineering, Human resources; Operations and Finance Departments. All of whom were proposed as respondents. The other respondents were drawn from the respective departmental membership with focus on those responsible for the strategy implementation, specifically the service delivery depot managers

The study primarily involved personal interviews of selected officers of the corporation in the collection of data. This method was chosen in preference to others due to the need foreseen to control the flow and pattern of discussion. The study used an interview guide and secondary data in the form of the existing corporate strategic plan.

Since all the proposed respondents were located in the same building, the cost of the study was manageable from a financial and time standpoint.

3.3 Data Analysis

In conducting the study, I recorded and analyzed the responses obtained to the closed questions and used coding to identify and categorize responses for analysis. I adopted content analysis for the open-ended questions due to its suitability in objectively and systematically measuring the semantic content of the responses received. I selected a unitization scheme with a graduated and exhaustive categorization of the responses received. In this way, the richness of the data was captured and retained.

4.2 Strategy development

One concept of strategy development is that a strategy once developed, forms the basis of future strategies which then tend to develop these steps, rather than fundamentally changing direction at pre-achieved equilibria. In such cases, incremental change in strategy is interpreted to be re-alignment with the changing environment.

Aspects considered in strategy development are the expectations of stakeholders, usually the large and influential shareholders. Cultural and political considerations are also taken into account so as to understand the wishes of the government and its consequences. Factors that the strategy must adapt to like the environment and regional economic conditions.

The Kijiji Picking Company (KPC) consists of two divisions, one is the head office department of the bank. These divisions are mainly engaged in the

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

These findings are the result of personal interviews carried out with the respondents identified in the chapter 3, Research Methodology section of this study. It is also the result of the study of secondary data obtained from Kenya Pipeline Co. Ltd. including the Strategic plan, Other documents perused include sessional papers and departmental plans and strategic analyses. This paper presents the findings from an objective appraisal of the responses received and the information contained in the strategic plan.

4.2 Strategy development

One concept of strategy development is that a strategy once developed, forms the basis of future strategies which then tend to develop there from, rather than fundamentally changing direction in punctuated equilibrium. In such cases, incremental change in strategy is interpreted to be re-alignment with the changing environment.

Aspects considered in strategy development are the expectations of shareholders, usually the large and influential stockholders . Cultural and political considerations are also made at this point so as to incorporate the wishes of the government and the constraining factors that the strategy must adapt to like the environment and regional economic block considerations.

The Kenya Pipeline Company structure consists of semi-autonomous departments headed by departmental managers. These departments broadly categorize as follows:

Technical; comprising Operations, Engineering and maintenance sections and Non-technical; comprising Finance, Auditing, Corporate Planning and Business Development.

Kenya Pipeline Company Organizational Structure

Board of Directors

Managing Director

Audit manager

Deputy MD

Chief Technical manager

Operations manager

Administration manager

Human resources manager

Corporate planning & Business development

Finance manager

Engineering manager

The Corporate planning department has traditionally spearheaded the planning process and performed the role of preparing the corporate strategic plan (CSP), a tradition that holds to the time of the study. Enquiry about why this is so, was met by the answer this has been the tradition in the company. Consequently, the head of this department has

automatically assumed the leading role in the exercise, notwithstanding the fact that holders of the office have been from diverse academic and experiential backgrounds including but not limited to Economics and Engineering. The implication of this has been that strategic management was not fully appreciated. The exercise tended to be more of a planning rather than strategic management process

Prior to 1997, strategic planning was confined to the preparation of the annual budget, an exercise that was once again traditionally performed by the Corporate Planning department. This is according to who? Please indicate how you got this information. The role of the other departments was limited to a preparation of what each perceived to be necessary for the performance of its functions in terms of recurrent and capital expenditure. The year 1997, not long after the deregulation of the petroleum industry in 1994, marked the first real attempt to formulate a strategic plan. The exercise involved a critical assessment of the operating environment. But even then, strategic decisions made bore the indelible marks of patronage, political and other external influences and considerations rather than internal corporate logic. Up until the year 2004, the 5-year corporate strategic plan was almost single handedly prepared by the corporate planning department, with peripheral participation by the other departments.

It is important to note at this point that the cash flow patterns and revenue generation stream of the company was stable and totally predictable owing to the existence of a governmental legal notice requiring oil shippers to use the pipeline from the port of Mombasa, to the hinterland.

<i>Year</i>	1993	1994	1995	1996
<i>Revenue</i>	2,003,171.00	3,485,241.00	4,295,417.00	4,484,061.00
<i>Kshs'000's</i>				
<i>Year</i>	1997	1998	1999	2000
<i>Revenue</i>	5,133,096.00	5,620,745.00	5,990,732.00	6,697,106.00
<i>Kshs'000's</i>				

This stability and predictability rendered the exercise of strategic planning unnecessary and the efforts made at strategic planning were more a plan on how to share the expected cake rather than how to bake the cake. Annual budgeting itself was an exercise of percentage increments to account for actual and anticipated inflation and a determination of the acceptability of the estimates. A further characterization of this period was the taking on of projects not contained in the budget and generally spiraling expenditure

4.3 Mission and objectives

The mission of the company at inception in 1974 through an act of parliament is also contained in the companies Articles of Association (AA). It was to build a pipeline for the conveyance of petroleum products from Mombassa to Nairobi, for the account of the Company or the account of others and any other pipelines in East Africa as the company may determine. The mandate extended to the company also includes the management, operation and ownership of other such pipelines and any other pipelines and all ancillaries pumping, storage and other facilities. This includes such other plant and

equipment and other installations, movable and immovable as the company may consider desirable and to manufacture, construct, maintain or modify any of the same.

The mission statement:

“To efficiently, economically and safely transport, store and deliver petroleum product to customers while optimizing shareholder value with utmost respect for the environment”

KPC's objectives are not always as clear as would be expected of a privately owned, profit-motivated enterprise. KPC's mandate refers to infrastructure and service provision and not specifically to the generation of profit. The company's key performance measures focus on throughput and the company has to pay due attention to the issues of national security. Notably absent in its mandate is specific reference to value for money or return on investment

Indeed, the over-riding objective that motivated the incorporation of the Company was the governments desire to establish an efficient, reliable and safe mode of transportation for petroleum product from the Port of receipt in Mombasa to the hinterland. The government also hoped to reduce the wear and tear on the roads occasioned by the heavy road tankers. Ironically at the moment, PSE chief executive officers, of which the KPC's is one, are required to sign performance contracts which contain specific requirement for profitability and value for money, amongst others things.

Departmental objectives and goals, in cases where these were set, represented the aspirations of the individual departments without necessarily representing a cohesive and

uniform direction guiding the actions and decisions of individuals in the organizations. Evidence of this is contained in previous budgets that were invariably cancelled and out of budget actions taken. As noted by a respondent, "managers in the past tended not to plan strategically for the organization. Rule of thumb rather than critical evaluation based on strategic perspective, was the accepted mode of operation."

4.4 Strategy development, evaluation and choice

Strategy development is about understanding the strategic position of the organization through a deliberate gathering of information and intelligence about the internal and external environment of the organization cite source here. It is also about understanding the underlying fundamental issues that will inform future actions; the generation of possible courses of operations in the circumstances envisaged and a selection of a course of action that is deemed to most suitably address the circumstances in realizing the objectives of the organization.

Strategic objective of the KPC is to be the most modern petroleum transportation company. It is proposed that this objective will be realized through: Consolidation of the market position through expansion of the network in the East and Central African region; Development of an Information Communication Technology policy and Capacity; Deployment of the latest technology in its operations; Training and Development of staff and effective management of knowledge and Diversification.

This strategy was largely developed through the influences of the CEO; the dynamics of the regional economy; desires of the government and an effective SWOT analysis of the company which resulted in the objective of consolidation in the market position

4.4.1 Environmental analysis

The KPC as of January to June 2006 controls approximately 85 to 90% of the refined petroleum product transportation market in the country. The incorporation of the company and the construction of the first phase of the facility, a 495 kilometer Mombasa-Nairobi Line was in pursuit of public responsibility. In essence, the long-term objective was to enhance safety on Kenyan roads by removing the petroleum tankers and concurrently enhancing the longevity of the life of the roads. To achieve this, a strategy of service development of the petroleum transportation service through the construction of a multi-product pipeline was conceived. At the time, most transportation of the product was made through the road and rail tankers. Soon thereafter, a legal notice obligating oil companies to use the pipeline was enacted and the KPC was born, beginning commercial operations in 1978.

Significant milestones in the development of the KPC strategy have resulted from appraisal of the operating environment and of the organizations competencies and also from external influences. One of these was the acquisition of the Kipevu Oil Storage facility (KOSF) from the GOK in 1986 that fundamentally shifted the Company's strategy, hitherto primarily pipeline transportation, towards petroleum reservoir storage. Worthy of note about this acquisition is the fact that the KOSF facility was constructed by the GOK through the Ministry of Energy as a reservoir for national strategic oil reserve. KPC records indicate the initial amount of indebtedness to the Min of Energy for the project as Kshs. 305 million. KPC was subsequently co-opted to run the facility largely due to its experience in handling petroleum products and her effective positioning as the major bulk product transporter. It too was a PSE controlled by the government. KPC run the facility collecting tariffs from users and remitting to the GOK collections

from tariff charged to users net of operational costs. KPC subsequently assumed ownership and settled liability with the Ministry of Energy. This significant strategic change that effectively gave rise to vertical integration was therefore the result of external influence rather than internal corporate logic per se.

Another significant milestone was the extension of the pipeline in the Western region via the Western Kenya Pipeline Extension (WKPE) in 1994. This particular strategic decision that resulted in service development, was for the most part the result of environment appraisal, internal evaluation, strategic evaluation and choice. The management at the time when the WKPE was first mooted in 1989 wondered why the service offered by the KPC between Mombasa and Nairobi could not be extended to the western region. An evaluation of the operating environment at the time determined the following:

Politically, the time was opportune since the road tankers continued to wreak havoc on the roads. Environmentally, several petroleum spillages had occurred from road tankers that had damaged the environment. This when considered against the impeccable record of the KPC at the time meant that an extension proposal would elicit favourable consideration. Another important consideration at the time was the closer collaboration between the heads of governments of the three east African states and revitalized talk about the creation of an east African Community. Being the only refined petroleum product transportation company in the region gave KPC a huge advantage in positioning to become the regions foremost petroleum transport company in the region. The combined east African market was an opportunity KPC decided to pursue

At the present time, political instability in the middle east and specifically in the oil producing and exporting (OPEC) countries represents a risk to the throughput and revenue generation stream of the company

On the socio-economic front, the possible creation of jobs at a time when the economy was performing poorly was a timely and welcome investment. As the only shareholder in KPC, it was imperative that the project be viewed positively by the government of the day if it was to fly. The acceptability of the project from a sociological standpoint seemed strong considering that the pipeline is constructed underground at a depth of six feet. From the experience gained from the initial phase of the facility, owners of lands across which the pipeline would pass could be counted on to grant easy access once the line was laid and to pose no construction obstacles.

Technologically, the pipeline as a mode of petroleum product transportation has proved efficient and effective over the other modes. KPC had the technical knowledge from successfully operating line one for the past ten years. Then also, the demand for petroleum product was growing as regional countries changed their supply points to stations along the KPC facility. The projected demand would provide a suitable return on investment. In other regions of the world, the pipeline mode of transportation had been established as the ideal and with pipelines expanding around the world, KPC was well positioned to take advantage.

The threats to the KPC strategy of concentration in petroleum pipeline transportation is largely been the competition posed by other modes of transportation. This has primarily been the rail and road transporter. This has led the KPC to pursue an inter-modal transportation strategy with these other petroleum transporters. To consolidate its position

in the market, KPC invested in over-head loading technology that enabled it load petroleum product directly to the trucks in the WKPE region. In saving the shippers overheads attendant to maintaining distribution offices in the WKPE region, the KPC caused the companies to become more dependent upon its services. The effect of this has been to compel the service users to shut down their regional operations and depend upon KPC. The provision of this service forms an exit barrier against shippers leaving the service of the KPC.

Indeed, a major threat has been the possibility of damage to the pipeline and inability to transfer product. This threat has been mitigated by the development of inter-modal transportation capability at all of KPCs stations with provision for truck loading and in some cases, rail loading. (KPS Corporate plan, 2005/6 to 2010/11) The threat of vandalism has been, is and will likely continue to be a major threat to KPC. Not only is there the threat of direct loss of product; there is also the contingent liability that would arise if the line were punctured and there was environmental degradation. As happened in a Nigerian pipeline, a leakage of the product into inhabited regions could result in colossal damage to property and life.

An evaluation of the profiles of the major shippers established that the competition amongst them revolved around distribution margins primarily. This provided an opportunity for KPC to forge ahead with plans for investment in overhead loading technology and to augment this with the provision of office space for the shippers adjacent to the storage facilities. By obviating the need for its major clients to maintain individual distribution offices, the early adapters amongst the shippers were able to improve their margins in the region and the rest were soon compelled to follow suit.

At present there are plans who says this? to diversify into transportation and storage of liquefied petroleum gas (LPG) by utilization of excess capacity currently existing within the company. This strategy is informed by the increasing use of LPG amongst Kenyan households and the stated government objective of protecting the environment against the destruction and felling of trees for firewood by promoting the use of LPG through standardizing LPG regulators.

The extension of the pipeline to Uganda is in furtherance of the strategy of concentration in petroleum pipeline transportation. It is being pursued to further consolidate the Company's position in the market. Through the entry barrier posed by the limiting colossal capital requirement, with current estimates pegged at Kshs. 2 billion, (ref table 1) the company will position itself strategically for opportunities that will be accorded by the Sudanese oil. Indeed, when this oil flows South, KPC will be a natural choice.

According to the corporate plan of KPC, opportunities existing in the operating and other environment of the KPC include the emerging markets of south Sudan and the mining activities of Northern Tanzania. Also targeted by the KPC is delivery to mining activities in the Great Lakes region and the Democratic Republic of Congo (DRC). Proximity of the facility to the Moshi International airport makes for good opportunity since it is already connected by rail and is close to the commercially vibrant town of Arusha in Northern Tanzania. Other landlocked countries of eastern Africa, such as Rwanda and Burundi are keen on developing a reliable alternative corridor of petroleum supply to the hitherto used central corridor using the port of Dar-es-Salaam.

Table.1

Kenya Pipeline Company Limited				
Plan projects- extract				
				Total cost, Kshs
Extension of pipeline to Kampala- phase I				600,000,000.00
Extension of pipeline to Kampala- phase II				1,390,000,000.00
				1,990,000,000.00
Source: KPC Corporate strategic and financial plan - 2005-2010				

4.4.2 Internal organizational analysis

The earning capability of the KPC is a major strength that influences its strategy development. On the most part, KPC has pursued an aggressive strategy of expansion and investment in mega projects that have cost in the billions of shillings. Its ability to earn based on the consistent and uniform revenues generated over many years coupled with its impressive record of loan repayment makes it attractive to lenders of large capital. Both national and international financiers have been willing to put their money in KPC. Further, the KPC has been a consistent payer of taxes and dividends to the shareholder. It has therefore been a PSE that is easy for the Ministry of Finance to guarantee. Over the

years there has been a steady decline in the debt to equity ratio that has been favorable to increased borrowing to finance capital projects.

<i>Ratios</i>	1993	1994	1995	1996	1997	1998	1999	2000	2001
<i>Profit to Capital employed</i>	0.09	0.08	0.2	0.15	0.12	0.04	0.06	0.09	0.03
<i>Debt ratio</i>	3.47	2.54	1.15	0.68	0.47	0.47	0.38	0.24	0.17

Source: KPC corporate plan

The technical competence of the staff is another factor that has influenced the development of strategy at KPC. An effective training and development program facilitated by good corporate liquidity and a culture of learning in the organization has facilitated a good team of well-trained personnel. The pay of staff, currently regarded as one of the most well rewarded PSEs, has lent itself to attracting some of the most qualified personnel available.

The nature of the KPC operations makes it particularly attractive to pursuing an aggressive strategy. Its zero lead-time capability is unmatched by all the other competitors and provides a competitive strength. In essence, a shipper needing urgent delivery of product at one end of the pipeline facility only needs to deliver a similar quantity at the intake to be eligible to pick up the same at any delivery point, subject to product availability. This competitive advantage coupled with the bulk transportation capability afforded has provided KPC with an unassailable lead when compared to other modes of transportation.

The weaknesses of KPC as largely were associated with her inability to manage her reservoir of knowledge. For many years, well-experienced and trained staff have left with all their knowledge without an effective well-organized transfer neither to juniors nor to other staff. In terms of person-years, this has been a major weakness inhibiting on the companys ability to exploit its competitive advantage fully. The distinct competency enjoyed by the KPC facility users in the form of negligible lead-time is intertwined with the expectation of continuous operation of the pipeline. The inherent weakness here was that the maintenance of the pipeline was contracted out exposing KPC strategy to vulnerability and dependence upon the availability and efficiency of the contractor. To consolidate her position, KPC has invested in and developed internal capacity to maintain this key competence by considerably improving the response time for pipeline fractures or punctures leading to predictable and manageable downtimes.

4.4.3 Consideration of strategic alternatives

Looking at the KPC from an investors stand point, the primary interest of the shareholder as is manifest in the performance contract terms signed by controlling officers of PSE's, is value creation through higher returns, rapid growth arising from continued growth of the business and lower risk within acceptable and appropriate limits of risk and uncertainty

Strategic alternatives at the KPC have revolved around the question of whether to continue or to change the business of the company or to improve the efficiency and effectiveness with which the firm achieves its corporate objectives in her chosen business sector. The corporate objective has been to build a pipeline for the conveyance of petroleum or petroleum products from Mombasa to Nairobi and to manage the facility. At

present, chief executives and senior officers of KPC have been required to sign performance contracts with specific requirements and targets, one of which is profitability. The possible concessioning of competing infrastructure in the form of Kenya railways, Tanzania railways and the Mombasa-Kampala highway could mean more competition but this is thought unlikely to be a serious threat to the business of KPC given its distinctive competencies.

The KPC has pursued a concentration strategy, (KPC corporate plan) to continue to serve its customers in the same service defined in its objectives or in very similar sectors. Indeed, KPC has, for the past twenty-eight years operated the pipeline for the conveyance and storage of petroleum product. Its major facilities have been and continue to be the pipeline and ancillary plant and equipment. The main strategic focus of the KPC has been on the incremental improvement of functional performance. The company has concentrated its resources in the pipeline and ancillary equipment used for transportation and storage of petroleum products. The functional performance of the organization has improved in terms of time taken to move bulk quantities of refined petroleum product and the cost of moving the unit quantities.

Major reasons and factors influencing the choice of strategy have been that the firm has been performing well and has perceived itself as successful. A senior executive with the corporation stated that "KPC has for many years been singled out as a showcase PSE for its performance and has consistently paid dividends to the government, the sole shareholder. KPC has also services all her financial obligations on schedule. Staying the course on the concentration strategy has also been considered less risky. A high percentage of changes are known to fail. KPC has grown to be a fairly large organization and alongside her perceived successful past, has created resistance to risk taking."

KPC has not had any major reasons to change its strategy. It has enjoyed competitive advantages unavailable to its competitors and the concentration strategy has largely evolved out of managers preferring not to consider any alternative strategies when what they have works. Indeed, the managers prefer stability than the disruptions that are attendant to routines in strategic changes. The possible politicization of strategic changes and the effects are issues managers and the CEO of the KPC would rather do without.

The environment has been relatively stable with the consumption of petroleum products largely stable and predictable. Serious threats to the business and existence of the KPC are largely absent. As noted by several respondents, "past CEO's of the KPC have tended to invest company resources in ventures that are non-core and respect of which the principal beneficiary has been the contractors rather than the strategic direction or positioning of KPC". With 80-90% of the petroleum product transportation business consistently handled by the KPC over the past twenty years, hers has been near monopoly status in the industry. Without the threat of competition, the concentration strategy that pursues continued stability provides a viable alternative.

Further responses from the respondents indicated that the KPC has pursued an expansion strategy. "From the initial 450-km line 1 from Mombasa to Nairobi, the alternatives have included whether to incorporate spur lines from the main line or whether to expand North or South of the existing line." KPC decided to continue its expansion deep into the hinterland in a Westward direction and at present there is progression at a fairly advanced stage towards the implementation of the Uganda extension. KPC has focused its strategic decisions on significantly increasing the pace of activity within the definition of its present business of conveying and storing petroleum product. There have been substantial effort directed towards increasing the efforts of the current business. Significant

investment has been made and continues to be made towards increasing her capacity for storage and speed of delivery. In the case of extending the pipeline towards Uganda, the strategic issue facing the KPC has been whether to and on what terms to include external or private participation. In crossing borders for the first time, strategic questions have arisen about whether to have equity participation, owner operator or joint venture.

4.4.4 Choice of strategy

The choice of expansion and concentration strategies by the KPC has been the result of several influences and considerations. These influences have been as follows:

KPC has enjoyed stable, predictable growth and revenue generation and its activities and structure have evolved to manifest this. The result has been a reluctance to risk anything likely to significantly affect its operations. The managers have tended to prefer stability to risk taking. The effects of demand for greater accountability and performance by the public coupled with specific requirements for performance under the performance contracts has also led the KPC to stay the course in pursuing stability rather than risk taking.

In choosing to expand, KPC managers have equated expansion with effectiveness. Past managers have wanted to create and control empires and be remembered for the things they did. These managers have been motivated by the allure of monopoly status and power desired. The external pressures of the regional states, largely comprising landlocked states in the hinterland who want a predictable and reliable supply of petroleum product, have influenced the choice of strategy

Past managers of KPC have been risk averse. Indeed, the managerial attitude toward risk has been one of pursuing stability. The fact that the organization is 100% owned by the government has meant that the degree of autonomy necessary for effective strategy evaluation and selection has been somewhat absent. It has therefore not been easy to effectively assume responsibility for the strategic decisions.

Managerial power relationships have also played a key role in the determination and choice of strategy. Indeed, the KPC information technology strategy was initially propagated by and effectively advanced by the CEO at the time that was a renowned IT scholar. Political considerations have also had their place in strategic choices and the location of some depots as too the headquarter designations accorded to the stations.

In opting for a joint venture in the extension of the facility to Uganda, the KPC has chosen to further its expansion and consolidation strategy in the region through cooption of the foreign government in the project. The implementation of an inter-governmental agreement is expected to proceed seamlessly. In this way, the risk of the capital outlay for the extension going across the border is shared between the two governments.

4.4.5 Strategy implementation

The strategy implementation process at the KPC is achieved through a series of steps. These steps include the sensitization of the staff of the measurable objectives of the company. Once the strategic plan has been approved, a task matrix is developed and the costs of implementation determined leading to the preparation of an implementation budget and the allocation of resources. The decision in respect of how much funding the various task centers is to receive is the responsibility of the corporate strategic planning

team. The capital budget is demarcated from other budgetary items and appropriate sources of funding considered.

Resource allocation and preparing the budget, each department prepares a preliminary budget based on the tasks identified from the approved CSP. These, together with the action and task matrix are reviewed by the CSP team and approved and from the basis of the approved capital budget. The review consists of ensuring alignment with the approved CSP. This resource allocation includes the identification of staffing requirements and human resource planning for the anticipated future operating environment. An examination is also made of the structure of the organization and consideration made of whether it addresses the requirements of the strategy. The WKPE for example necessitated fundamental changes to the organizational structure that enabled effective operations and strategy implementation.

Development of an organizational structure that emphasizes the key tasks identified for the creation and delivery of value. These key functional departments are then assigned tasks and the key performance measures identified. The chief executive then supervise all the key operations and exercises control over performance and the realization of objectives.

Staffing of the various functional departments with the requisite personnel to perform the tasks identified

The strategic plan monitoring and evaluation committee oversees the implementation of the strategic plan through a series of actions. These include measuring the performance of the departments, evaluating these against plans and providing timely and objective feedback to senior management of progress made in the plan implementation. The senior

management effects changes it deems necessary, either by amending the targets or by taking corrective actions in replacing staff.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1: Summary

The strategy development process of KFC here for the most part been a combination of planning, design and emergence. The design strategy development process has gained particular prominence during the last ten years during which time the performance of PSP's has come under intense scrutiny both from the major shareholders in the sector, the government, and the public.

The policy of liberalization and the formation of regional trading blocs offer the most formidable challenges as well as the best opportunities for KFC. What may be regarded as the most critical issue facing KFC is the best option for the regional blocs and whether an inevitable opportunity for acquisition and consolidation of her peers. KFC has the technical know-how of operating a profitable firm as demonstrated by its twenty six years of operation. Other factors that influence the strategy development process are political, considering the nature of government, the structure of the CIO and the structure of the environmental dynamics such as those created by the regional blocs and trade liberalization.

The KFC's are also organizations in the industry in particular and in the region generally and are expected to realize their objectives and potential in the near future.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1: Summary

The strategy development processes at KPC have for the most part been a combination of planning, design and emergence. The design strategy development process has gained particular prominence during the last ten years during which time the performance of PSE's has come under intense scrutiny both from the major shareholder, in this case the government, and the public.

The policy of liberalization and the formation of regional trading blocs offer the most formidable challenges as well as the best opportunities for KPC. What may be regarded as the sunk costs make KPC the best option for the regional blocs and present an invaluable opportunity for expansion and consolidation of her presence. KPC has the technical know-how of operating a pipeline having done so for the last twenty six years. Other factors that influence the strategy development process are political considerations, the desires of government, the preferences of the CEO and the pressures of the environmental dynamics such as that exerted by the regional countries and trading blocks.

The KPC, like other organizations in the industry in particular and in the region generally can only expect to realize their objectives and potential under key assumptions, these being:

Sustained economic growth in countries served by the pipeline infrastructure and continued cooperation. This is integral to the strategic plan considering the huge investment in building the pipeline infrastructure, which requires substantial quantity throughputs to remain viable

5.3 Recommendations

Good corporate governance and stability in management tenures and peace and stability in the regions served by the pipeline. Although 100% owned by the government, the KPC is a commercial enterprise which must therefore be run as such if the mission and vision is to be achieved.

Continued goodwill from the major shareholder which happens to be the government with adequate support for the company management. As the single shareholder, a congruence of intentions is the only way forward and KPC banks heavily on this goodwill.

5.2 Conclusions

Looking at the KPC as a commercial business, from the standpoint of an investor, the primary concern is about the creation of value which will be driven by three main factors:

Higher returns, since investors value investments with superior sustained returns, and indeed government can no longer support non performing PSE's

Rapid growth arising from rapid and continued growth of the business as a sign of confidence in the future and management competence; and

Lower risk that is within acceptable and appropriate limits of risk and uncertainty, so that they are comfortable about their investments

Since the government owns 100% equity in KPC, it can only be hoped that appointments of chief executive officers to KPC will be meritorious and effectively and objectively evaluated.

5.3 Recommendations

The introduction of the Performance contracts requirements for chief executives and senior officers of PSE enterprises should be seen as a beacon of hope for hitherto below par performances by the PSE's. Indeed, CEO's and senior officers would need to justify their remuneration by specific reference to the achievement of deliverables that they have undertaken to deliver within a time frame.

And therein lies the "Achilles Heel"; How to set realistic yet challenging goals and objectives and the determination of specific measurement frameworks that realize the desired objectives; and monitoring and evaluating the performances of the chief officers to determine whether they are progressing as desired and taking corrective action.

Corrective action against non-performing CEO's should consist of an objective determination of the cause of the failure. This should include a review of the strategy adopted to establish its suitability in the realization of the objectives and a review of the targets and goals. Essentially, the determination of the strategy should be the responsibility of the CEOs and senior officers. Where this is not so, it becomes difficult to hold them responsible for the strategy and performance. A review of the goals and targets set will help determine the achievability of the goals. Corrective action, which includes changing strategy should therefore only be pursued where it is determinable that the strategy adopted was not suitable in the circumstances.

Strategy monitoring and evaluation requires the availability of specially trained and experienced personnel who may be hired from Institutions of learning and consultancies. Indeed, in the more developed world, Universities and other Institutions of higher learning obtain considerable funding from private sector corporations and the government who purchase their expertise. Strategy development must be seen for what it is: A game plan to overcome obstacles and continuously emerge having achieved objectives. They must cease to be exercises where senior officers simply go to talk, but where they start the walk! All organizations should develop, implement, monitor and evaluate their strategic plans.

5.4 Suggestions for further research

I suggest that further research be done on strategy implementation, monitoring and review. The reason for this is that strategy development and implementation are both key to the success of the strategy and the organization. Indeed, the effectiveness of the strategy can only be as good as its implementation. It would be useful to establish how effectively strategy implementation takes place at KPC

Further research is also suggested in determining the parameters of performance evaluation that would be adopted in circumstances such as KPC's where the process of strategy development is heavily influenced by factors other than corporate logic. A question lingers about the extent to which the chief executive can be held liable in a situation where performance targets are set, yet the responsibility for strategy development for accomplishing the objectives are not solely dependent upon him

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¹ Report of ECA/OAU Regional Conference on the role of Public sector in National and Regional Development

² Strategy formulation and implementation, Pearce and Robinson 3rd Ed.p245

INTERNET BASED RESOURCES

Public Sector Management (World Bank)

[http// wbln/8. worldbank.org research workpapers.nsf](http://wbln/8.worldbank.org/research/workpapers.nsf)

World Bank (2000), world development report 2000/1: attacking poverty. New oxford university press.

[http// w w w1. worldbank.org/publicsector/pe/contemporary.htm](http://www1.worldbank.org/publicsector/pe/contemporary.htm)

Interview Guide

DEPARTMENT QUESTIONS

CEO What is the corporate strategy currently adopted and why was it chosen?

Who was responsible for the development of the corporate strategy?

How was it developed?

Will it be revised? and if so when and why will it be revised?

What would you like to see improved or changed in the strategy and why?

What factors affected the determination of the CSP?

Engineering What do you consider to be the role of the department in the CSP?

What was your role in the CSP

Do you have a departmental strategic plan? If so, how was it developed? If not, why so?

What would you consider to be the factors that affected the development of the strategy?

Who was responsible for the development of the CSP?

Human Resources Do you have a departmental SP??

How was it developed?

Who was responsible for its development?

Do you consider it appropriate and what factors do you consider to have affected its development?

Do you revise the SP?? When and why is this done?

Any other comments on the CSP?

Finance What is the SP of the department?

How was it developed and who do you consider to be responsible for its preparation?

Has the SP ever been revised? If so, when and why was this done?

What factors do you consider to have affected the preparation of the SP?

Do you consider the SP appropriate?

Any other comments on the CSP?

Corporate planning What do you consider to be the most fundamental factors affecting the development of the CSP?

How was the CSP developed?

Who was responsible for the development?

Has the CSP been ever revised?

What factors influenced the revision?

How often, if so will it be reviewed, why and by who?

Any other observations about the CSP development?

Operations What do you consider to be the most fundamental factors affecting the development of the CSP?

Do you have a departmental SP?

How was the SP developed?

Who was responsible for the development?

Has the CSP been ever revised?

What factors influenced the revision?

How often, if so will it be reviewed, why and by whom?

Any other observations about the CSP development

Glossary of Terms

- i. Articles of association of the company at inception.
- ii. KOSF Kipevu Oil Storage facility in Mombasa handling white oils
- iii. MIA Moi International Airport, Mombasa
- iv. JKIA Jomo Kenyatta International Airport, Nairobi
- v. NT Nairobi Terminal, KPC's central control and largest terminal
- vi. Throughput The measure of quantity of petroleum product measured in cubic meters (m³) pumped through the pipeline
- vii. ERSWEC Economic Recovery Strategy for wealth and employment creation.
- viii. WKPE Western Kenya Pipeline Extension
- ix. SWOT Strengths, Weaknesses, Opportunities and Threats