# STRATEGIES ADOPTED BY SHELL BP KENYA LTD TO COPE WITH ENVIRONMENTAL CHANGES IN KENYA

**BY**

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## DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

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This management research project has been submitted for examination with my approval as the University Supervisor.

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# DEDICATION

I dedicate this study to my father Joseph W. Mwangi, my mother Terry Muthoni, my sisters Kate Wambui, Eve Wamuyu, Diana Wanja and friend John K. Njoroge for the support, guidance, understanding and encouragement during all the years of my study, as I prepared and worked on this project. **I LOVE YOU AND GOD BLESS YOU ALL.**

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## ABSTRACT

This study was based on a case study research design to achieve the objectives of the study, which were to investigate the strategic response to external environment of Shell BP Kenya ltd. This research was conducted through a case study. A case study has been chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of the Shell oil companies. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. The importance of a case study is emphasized by Young (1999) and also by Kothari (1990) both of whom acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. It's a method that drills down, rather than cast wide. The interview guide to be used will entail the various aspects of the study, which include the objective, mission, vision of the organization, the challenges (both internal and external), customer care, organizational structure, and strategic management, issues among others that could appear relevant to the study. It was determined from the study there are quite a number of new companies that sell petroleum products in Kenya. It was established from the study that the company is facing stiff competition from the substitutes/ other sources of energy such as the biogas, solar energy and the biofuel which are cheaper as opposed to the fossil fuels and this has inclined the company to adopt vigorous and intensive advertising to remain competitive in the market.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the Study

Companies respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players (Hamel and Prahalad, 1993). It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment.

Strategy is an essential part of any effective business plan. Strategy is basically about competition and the means by which an organization tries to gain competitive advantage. By using an effective competitive strategy, a company finds its industry niche and learns about its customers (Porter, 1980). Today's organizations have to deal with dynamic uncertain environments. In order to be successful, organizations must be strategically aware and understand how changes in their immediate environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers.

To succeed long term, organizations must compete effectively and outperform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers. A complex and dynamic modern environment is inevitably difficult to forecast, the inherent uncertainties can make it highly unpredictable and potentially chaotic. The competitive environment is affected

by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation; market growth; the stage in the life of the products or services in question and the frequency of new product launches; capital intensity; and economies of scale. It is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention.

### 1.1.1 Environmental Dependence

The term Business Environment is composed of two words 'Business' and 'Environment'. In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits. On the other hand, the word 'Environment' refers to the aspects of surroundings. Therefore, Business Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

All organizations are dependent on the environment for their survival. It is the fact of the organization's dependence on the environment that makes the external constraint and control of organizational behavior both possible and almost inevitable. Organizations can either try to change their environments through political means or form interorganizational relationships to control or absorb uncertainty.

Environmental complexity is viewed as the interaction between environmental risk, dependency, and interorganisational relationships. Dependence theory assumes that environmental turbulences are equivalent, with each force assumed to compete for the

same scarce resources and to contribute to and experience environmental competition equally. These findings demonstrate that the intensity of competition faced by the environment in a population depends not only on the number (i.e., density) of organizations in a population, but on their relative sizes as well. Baum and Mezias (1993) generalize the model showing organizations similar in size, product price, and geographic locations compete more intensely.

Business Environment has two components: Internal Environment which includes 5 Ms i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise (Scholes, 2002).

External environment which are those factors which are beyond the control of business. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc. It is of two Types: Micro/Operating Environment which is the environment that is close to business and affects its capacity to work. It consists of Suppliers (They are the persons who supply raw material and required components to the company. They must be reliable and business must have multiple suppliers i.e. they should not depend upon only one supplier.), Customers (They are regarded as the king of the market. Success of every business depends upon the level of their customer's satisfaction. Ansoff and Mc Donnell (1990), Examples are wholesalers, Retailers, Industries, Foreigners, Government and Other Institutions.), Market Intermediaries (They work as a link between business and final consumers. Types are Middleman, Marketing Agencies, Financial Intermediaries, Physical Intermediaries.), Competitors (Every move of the competitors affects the business. Business has to adjust itself according to

the strategies of the Competitors.) and finally the Public (Any group who has actual interest in business enterprise is termed as public e.g. media and local public. They may be the users or non-users of the product).

The other type of external environment is Macro/General Environment which on the other hand includes factors that create opportunities and threats to business units. The following are the elements of Macro Environment: Economic Environment which is very complex and dynamic in nature that keeps on changing with the change in policies or political situations. It has three elements which are Economic Conditions of Public, Economic Policies of the country and the Economic System. Other Economic Factors are Infrastructural Facilities, Banking, Insurance companies, money markets, capital markets (Porter, 1980).

The Non-Economic Environment on the other hand includes the Following: Political Environment which affects different business units extensively. Its components are Political Belief of Government, Political Strength of the Country, Relation with other countries, Defense and Military Policies, Centre State Relationship in the Country and Thinking Opposition Parties towards Business Unit. Socio-Cultural Environment which is the Influence exercised by social and cultural factors, not within the control of business. These factors include: attitude of people to work, family system, caste system, religion, education, marriage etc. Technological Environment that is a systematic application of scientific knowledge to practical task i.e technology. Every day there has been vast changes in products, services, lifestyles and living conditions, these changes must be analyzed by every business unit and should adapt to these changes.

Natural Environment that includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc. Every business unit must look for these factors before choosing the location for their business. Demographic Environment which is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc. Every business unit must see these features of population and recognize their various needs and produce accordingly. Lastly International Environment which is particularly important for industries directly depending on import or exports. The factors that affect the business are: Globalization, Liberalization, foreign business policies, cultural exchange (Thompson and Strickland, 2002).

### 1.1.2 Response Strategies

Strategic responses are actions taken or resources used in the overall strategy development process and are increasingly important to managers seeking to increase the performance of their firms (Day and Wensley, 1988). Day and Wensley (1988) argued that strategic responses consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor.

According to Ansoff (1990), the extent to which the environment is changeable or turbulent depends on six factors: changeability of the market environment, speed of change, intensity of competition, fertility of technology, discrimination by customers, and pressures from governments and influence groups. He suggests that the more turbulent the environment is, the more aggressive the firm must be in terms of response strategies and entrepreneurialism or change orientation if it is to succeed.

For any organization to live and survive, it is important that it responds positively to its environment and the changes in it. The strategic responses of an organization to its environment are as follows; least resistance which is a type of response in which an organization simply follows the demands of the environment as it is, without any aggression or strategy formulation. It just manages to survive by way of coping with its changing external environments. Such an organization is not ambitious and confident and is therefore called a goal-maintaining unit. Some organisations are very passive in their behaviour and are solely guided by the signals of the external environment. Such response is chosen because it is a simple path to maintaining basic goals.

Secondly Proceed with Caution which is a reactive type of response where organisations take intelligent steps to adapt with the changing external environment. These organisations monitor the changes in that environment, analyze their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

Lastly Dynamic Response which is a proactive type of response where businesses regard the external environmental forces as partially manageable and controllable by their actions. Not only do they recognize and ward off threats, they convert threats into opportunities. They are highly confident of their strengths and conscious of their weaknesses.

Response strategies are therefore a set of decisions and actions that result in formulation and implementation of plans designed to achieve the firms' objectives. They may take the many forms depending on a firm's capability and environment.

### 1.1.3 Oil Industry in Kenya

Petroleum is Kenya's major source of commercial energy and has, over the years, accounted for about 80% of the country's commercial energy requirements. Demand for oil in Kenya is quite small due to the country's underdeveloped economy, which is heavily dependent on labour intensive and rain-fed agriculture systems. The domestic demand for various petroleum fuels on average stands at 2.5 million tons per year, all of it is imported from the Gulf region, either as crude oil for processing at the Kenya Petroleum Refineries Limited or as refined petroleum products.

Prior to liberalization in October 1994, a significant feature of Kenya's oil industry was a relatively high level of government's direct participation, and a correspondingly low level of private sector involvement. Seven marketing and distribution companies were responsible for procuring and importing their own oil. The National Oil Corporation of Kenya was mandated to supply 30% of the crude oil requirement into the country.

Since liberalization, many new companies have been licensed by the government to engage in petroleum trading, especially import and export, wholesale and retail of petroleum products. However, despite this initiative, only about ten new entrants are actively trading with a market presence of less than 10% of the market share due to tariff and non-tariff barriers to entry. The major companies and organisations linked to oil and gas in Kenya are around 25 in number. Among the top 10 according to the market share as at June 2010 are; Total Kenya, KenolKobil, Kenya Shell, Libya Oil, Gapco Kenya, National Oil, Hashi Energy, Hass Petroleum, Galana Oil and Oilcom. The Kenya Petroleum Refineries Limited, Kenya Pipeline Company Limited, National Oil Corporation of Kenya and Kenya Railways Corporation represent the

government's presence in the petroleum industry. The Kenya Petroleum Refineries Limited is owned on a 50:50 equity holding between the government and three shippers, namely, Shell, British Petroleum and Caltex. The Kenya Pipeline Company Limited, Kenya Railways Corporation and private transporters are involved in transportation of petroleum products from Mombasa to other parts of the country and neighbouring countries.

National Oil Corporation of Kenya Limited was incorporated in 1981 under the Companies Act (Cap 486). The company's main objective then was to coordinate oil exploration (upstream) activities. In 1988 the company was mandated on behalf of the government to supply 30% of the country's crude oil requirements that would in turn be sold to oil marketing companies for refining and onward sale to consumers. Oil companies in Kenya have been adjusting the pump prices upwards following disputes with the Government over the management of the multibillion industry. This has left motorist to spend more on fuel despite the hard economic times. With the August 2010 inflation approximated at 3.2% due to low charges on mobile calls this means that the cost of other commodities is still high and increase in fuel can only push the prices up. Kenyan Oil companies have exhibited monopolistic tendencies where there are few dominant firms, independent decision making by some firms and ease of entry and exit. With such features the government has come up with a raft of measures such as formation of government owned oil company, introduction of upfront tax on crude oil and the latest known as batching where a company only gets its oil if it is released in a certain batch.

These regulations measurers had various implications on the industry. First the introduction of upfront tax led to major companies to exit the market with the

argument that this affected their cash flow forcing some to take up bank loans in order to pay for the tax. Though this improved the Kenya Revenue Authority the efficiency to collect the tax it did hurt the economy through lost jobs.

Secondly the formation of a government owned company has never saved the situation as the company joined the rest in their mode of operations and with the aggressive acquisition of some oil outlets we may end up with the same monopoly that was being avoided.

Thirdly the batching has opened up the old business malpractice of hoarding where a seller does not release the stock to the market but waits until the demand upshots the supply causing the prices to sky rocket and hence making a kill out of it. After all these failed attempts to tame the oil industry the Government has no option but to introduce price controls on the oil companies since output control has been ignored by the players in the industry. This can be achieved since the Ministry of Energy has the figures on all the cost related to the oil and a margin of between 10-12% can be allowed. Despite the argument of a liberal market, the implication on the behavior of oil companies has on the whole economy and the neighboring countries such as Uganda that depends on the same oil defeats this argument in total. The oil companies are therefore looking for alternative ways to face the challenges they are facing by coming up with response strategies. They are also struggling to differentiate themselves through product and service innovation and coping with the new entrants into the industry. The customers are also informed and selective. Oil companies are strengthening themselves with mergers and acquisitions.

### 1.1.4 Shell BP Kenya Limited

Shell is a global group of energy and petrochemical companies. With around 101,000 employees in more than 90 countries and territories, Shell helps to meet the world's growing demand for energy in economically, environmentally and socially responsible manner. The headquarters are based in the Hague, Netherlands. The parent company of the Shell group is Royal Dutch Shell plc, which is incorporated in England and Wales. It produces 2% of world's oil, and 3% of the world's gas. On a daily basis it produces 3.1 million barrels of gas and oil. It has 44,000 Shell service stations worldwide and sells 145 billion litres of fuel per annum. It also owns more than 35 refineries and chemical plants. Its core business is upstream which involves search for crude oil and natural gas and downstream which refines, supplies, trades and ships crude oil worldwide. It also manufactures and markets a range of products, and produces petrochemicals for industrial customers (Shell Global, 2011).

Kenya shell is a subsidiary of Royal Dutch Shell plc. It began life in Kenya in 1900 with operations in Mombasa and Zanzibar. The operations started with illuminating kerosene as the only product being sold in bulk. Petrol was imported in drums then decanted into tins for distribution. Prior to this, Smith Mackenzie and Co. Ltd had been acting for shell while Gibson and Co did for BP. In 1928, the consolidated petroleum Company was formed to handle joint operations and products of shell and BP in several countries in Asia and Africa. However, the consolidated arrangements were dissolved and operations taken over by newly formed companies namely Kenya Shell Ltd and BP Kenya Ltd on a 50/50 ownership under the management of Kenya Shell Ltd.

The two giant companies could not agree on business for Kenya and Mozambique. It was hence agreed that Shell manages business in Kenya under Shell BP Kenya ltd

while BP manages business in Mozambique under Mozambique BP Shell Ltd. The Share holding was to be maintained at 50% for both organizations. Over the years, the company has expanded and currently has over 131 retail services stations, some with convenient stores. Shell BP Kenya Ltd owns two large terminals in Mombasa and Nairobi as well as a depot in Kisumu. It owns aviation sites at Jomo Kenyatta International Airport, Moi International Airport Mombasa, Wilson Airport, Moi Air Base Eastleigh, Malindi Airport, Kisumu Airport and Eldoret Airport. It also owns an oil blending plant in Mombasa. In terms of workforce Kenya Shell Ltd has 307 employees inclusive of both permanent and contracted staff (Kenya Shell Ltd Website).

The interests of Shell Company in Africa are managed under an umbrella Company called Shell Oil Products Africa (SOPAF). This is then subdivided into regions, which are East West South and Northern Africa Regions. Shell PB Kenya Ltd is under East Africa regional management team. The business is managed under different functions retail, commercial Liquefied Petroleum Gas (LPG) lubricants and aviation. The company adopts both geographical and functional approaches in its structural arrangements.

Stiff competition from the overcrowded independent operators in the oil industry has made it impossible for multinationals to make profit. Multinational oil Companies adhere to stringent internal rules on environment and safety standards which they subscribe to, while their competitors do not hence the business environment is not level. This erodes on their good returns thus opting to quit and concentrate on the more lucrative upstream business. The complex structure and the presence of multiple institutions in the sub-sector has at times given rise to perceptions that energy institutions in Kenya are structured in a manner that encourages some duplication and

redundancy (Nyoike & Okech, 1998). The increasing government control both at institutional and managerial levels of the sub-sector has diluted the presence and control of multinationals oil companies. MNC have been losing tenders to bring in products to independent operators through the open tender system (OTS).

They are other factors that are beyond Shell's control such as the global financial crisis, the recent spike in oil prices as the global market withered in 2006-07, the global food crisis, the volatility and fluctuating value of the dollar and political instability in major oil producing countries such as Nigeria, Sudan, Libya and some Middle Eastern states.

## 1.2 Research Problem

To succeed in the long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. Given the current uncertainty and surprising environmental turbulence in the global context, and more so in Kenya, there is a need to institutionalize flexibility and dynamism in planning and implementation of projects. No longer can any enterprise depend on historical trends or projected trend without critically observing analyzing and evaluating "surprising events and issues" which affect the known trend-be it external, internal or performance. With the onset of global market competition facilitated by e-commerce, "things" are changing pretty fast, occasionally changes taking place in the opposite direction of the known trend or of the projected trend. Information is now transmitted worldwide within seconds. In a discontinuous and surprise environmental turbulence, management process should be flexible, dynamic and entrepreneurial so as to allow timely response to novel and unexpected strategic issues.

The concept of strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. However, some empirical studies done in developing nations indicated that management processes are characterized by bureaucratic tendencies; characterized by authoritative patterns of management. In another study on the strategic responses of commercial banks to the threat of substitute products, Goro (2003) found out that commercial banks employ more of market strategies such as advertising and quality so as to maintain their market share. In yet another study on strategic responses, Kandie (2001) found out that Telkom Kenya Ltd responded by reducing costs of operation in terms of cutting down on staff. This was in order to survive in the competitive environment. Migunde (2003) on the other hand found out that Kenya Broadcasting Corporation responded to increased competition by improving the quality of its programs as well as venturing on an expansion strategy to reach a wider coverage.

Studies by Komira (2011), Loise (2011) and Wanjiku (2011) identified strategic responses by firms in the insurance, banking and beer industry respectively. Studies in the oil industry by Kosom (2011) identified the competitive strategies employed by the national oil corporation of Kenya. While Wahito (2011) sort to identify Porters value chain model and competitive advantage in the oil industry in Kenya, Otido (2011) sort to identify the factors influencing exit of multinational oil company from Kenya: a case of Kenya Shell Company Ltd. Though researches have been done in the recent past both on strategic responses and the oil industry in Kenya, they have not focused/analyzed Shell BP Kenya ltd in terms of response strategies and coping with environmental changes in Kenya. This research is set to address this gap in literature by analyzing the oil industry in Kenya with the aim of concentrating on Shell BP

Kenya ltd and determining the strategies adopted by the firm to cope with the rapidly changing environment surrounding it.

Given the a discontinuous and surprising environmental turbulence, management process should be flexible, dynamic and entrepreneurial so as to allow timely response to novel and unexpected strategic issues, this study therefore seeks to fill the gap by seeking answers to the question: what are strategies adopted Shell BP Kenya ltd to cope with environmental changes in Kenya?.

### 1.3 Research Objectives

This study has two objectives:

i. To establish environmental changes affecting Shell BP Kenya ltd,
ii. To determine the strategies that Shell BP Kenya ltd has adopted to cope with the environmental changes.

### 1.4 Value of the Study

This study will benefit all firms in the oil industry as it is expected to identify the common and expected environmental changes and establish response strategies in which firms are employing in order to achieve and sustain competitive advantage while increasing the market share.

The findings will have important practical implications for senior managers and others responsible for the development, implementation, or execution of strategies in these firms. Owing to the importance of the oil industry to the economy, the study will also be of interest to government agencies and policy makers in the development of policy frameworks and the lessons of success can be applied to other business areas.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the literature review which focuses on the strategic responses, and the discussion includes strategies adopted influencing factors, theories, market reviews, and environmental actors.

## 2.2 Concept of Strategy

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of two general types of strategies that are commonly used by businesses. The two generic strategies are as follows: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency). Porter simplifies the scheme to the three best strategies: cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, he points out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line,

whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit (Ansoff, 1980).

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Henry, 1978).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel & Prahalad (1989) views organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments

to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Buzzell & Gale, 1989).

Hamel and Prahalad (1989) argue that a critical ingredient in the strategies of outstandingly successful companies is what they term "strategic intent"—an obsession with achieving leadership within the field of endeavor. Strategy process in facilitating communication and coordination must recognize the importance of intuition, tacit knowledge, and learning-by-doing in complementing more "scientific" analysis. However Unlike mathematics, chemistry, or even economics, strategic management lacks an agreed-upon, internally consistent, empirically validated body of theory. Though it employs theory and theoretical concepts, these are drawn mainly from economics, psychology, ecology and sociology principally on an ad hoc basis (Buzzell & Gale, 1987).

### 2.3 Organization and Environment

The business environment is very dynamic and keeps on presenting both opportunities and challenges to the organizations that operates in it. Factors that influence the business environment include the government, social-economic dynamics and globalization; Organizations must survive by analyzing the environmental dynamics, identify the opportunities and respond in a way that seizes these opportunities to ensure survival and growth.

A new age paradigm is emerging in the business environment where governments are expected to do less; that they should reduce their responsibilities, privatize public services where practicable and reform their own operations. What has been driving

this change is the question as to why some nations are seen to be more prosperous than others (Porter, 1990). According to Porter a better question would be "Why does a nation become the home base for so many of an industry's world leaders"? While struggling to answer the question governments try to encourage investments in their countries to meet high productivity level that would guarantee improved living standards. It is the decisive characteristics of a nation that would allow its firms to create and sustain competitive advantage on external environment effects in a particular field.

The government strategic response to external environment has been found to influence modern competitiveness of firms within it; the government can influence and be influenced by the determinants of competitiveness in the business environment. The four determinants are; firms strategy structure and rivalry, factor conditions, demand conditions and related and supporting industries. Factor conditions are affected through subsides, policies towards capital markets, policies towards education (Porter, 1990). The government also acts as a regulator, buyer, and shapes supporting industries (Republic of Kenya: SEPIP, 1996). The determinants measure the extent to which the national environment is a fertile one for competing in an industry. In most cases the government environments keeps on shifting resulting in to a highly unpredictable environment (Steiner 1997 "Sunk worker" case). On the other hand, Social and political stability of a country has a very significant role in influencing the industrialization process. Globalization has created a new situation where new kinds of jobs are becoming available; new industries are created; production, consumer and trade is changing; markets are unsettled; and economic policies are shifting in any business environment creating all kinds of opportunities for organizations to take advantage of (Hickman, 1992)

The company's corporate strategy in responding to environment change should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization. At a general strategic level, Ansoff and Mc Donnell (1990) suggests three reasons why firms diversify. The objectives cannot be achieved by continuing to operate in their existing market.

According to Hill and Jones (1999), focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger. It differs from corporate strategy in that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002) "Business unit strategy is about how to compete successfully in particular markets".

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

### 2.4 Strategic Response and Environment

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Strategy answers the fundamental questions of where do we want to go, where are we now and how do we get there. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include: Objective setting which involve long term and short term goals; the vision and mission of the company; Strategic directions which involve what business activities should the company concentrate in and where; Competitive strategy where after considerations of the firm's competitive strengths and weaknesses vis-a-vis competition and customer needs, the company establishes a position of competitive advantage (Lowes, 1994).

After an analysis of the environment the firm may choose any of the generic competitive strategies in response to opportunities. Cost Leadership can be achieved through efficiencies, cost reductions, overhead reductions. Differentiation may take the form of design or brand image, technology, quality, durability, after sale services, Distribution and market mix etc. Focus involves focusing on a particular buyer,

segment, or geographic markets. A firm failing to develop its strategies in any of the three directions is 'stuck in the middle' and suffers from lack of focus, low motivation, blurred corporate culture and conflicting set of organization arrangements (Porter, 1998) .The strategic directions a firm may choose may include Market penetration strategy, Market development strategy, Product development strategy or diversification strategy. This could also be described as Horizontal growth, Vertical growth, Conglomerate growth or internationalization (Ansoff, 1990). In deciding on which direction to grow the firm must also determine to what extent it must expand externally and internally. Internal growth involves expanding a firm's internal capabilities such as production, distribution and marketing facilities. External growth may include mergers and take-over. While a firm may seek to expand its business in one of the various ways it may also choose to rationalize and restructure (Ansoff, 1990).

Ansoff and McDonnell (1990) see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises. Hamael and Prahalad (1989), perceived an organization as a foundation for sustained competitive advantage when it poses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate new values creating capabilities based on that knowledge. And unless there is an advantage over competitors that is not easily duplicated or connected, long term profitability is likely to be elusive

Aosa (1992) noted that the action of competitors have a direct impact on a firm's strategy. He further stated that strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the

company operates needs to be understood. The structure of an industry and trend in that industry will help the current and future attractiveness of that industry.

In the 1990's, many companies have acknowledged the critical importance of being customer oriented, customers pay attention to after sales services, and responsiveness of employers (Kotler, 1997). Hamael and Prahalad (1989) noted that restructuring and re-engineering "while both are legitimate and important tasks, they have more to do with sharing today's business than with building tomorrow's industry". According to Aarker (1989), long - term success involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter.

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

Pearce and Robinson (2000) noted that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's

responsiveness to environment changes because it determines the way that management perceives the environment, diagnoses their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) noted that the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key to competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

Global trends have had adverse effect on many sectors, the insurance sector included. Every organization has to develop strategies that will enable it to fit within the environment it operates in. this is necessary because the environment is dynamic, multi-faceted and complex; as a result of which organizations have to plan how to respond to the challenges posed by it. An organization can either plan on how to cope with the many changes brought about by the environment or handle them as they emerge.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter details how the proposed study was carried out. It covers the design to be adopted to conduct the study, how data will be collected and eventual analysis of the data in order to generate research findings for reporting.

## 3.2 Research Design

This study was based on a case study research design to achieve the objectives of the study, which were to investigate the strategic response to external environment of Shell BP Kenya ltd. This research was conducted through a case study. A case study has been chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of the Shell oil companies. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear.

The importance of a case study is emphasized by Young (1999) and also by Kothari (1990) both of whom acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. It's a method that drills down, rather than cast wide. The interview guide to be used will entail the various aspects of the study, which include the objective, mission, vision of the organization, the challenges (both internal and external), customer care, organizational structure, and strategic management, issues among others that could appear relevant to the study.

### 3.3 Data Collection

The study made use of both primary and secondary data. Primary data was obtained from managers at the Shell oil company using an interview guide. The interview guide (Appendix II) will be used to solicit data on the changes in the company's environment and the responses thereto. The respondents of the study were the heads of departments. The data will be collected from the senior manager of the Shell BP Kenya ltd, selected from various departments of Shell oil companies, strategy and business, production, marketing, quality assurance, training and field service, finance department among others. The chosen respondents are holding key departmental positions and therefore they are the ones who are spear heading the company while changes continue, most fundamental changes have taken place for the last five years.

The method to be used was through personal interviews. An interview guide with open ended questions were used. This enables oral administration of questions in a face to face encounter therefore allowing collection of in depth data. This will involve in-depth discussion through individual meetings with the senior managers of the firm in question, and the data will be analyzed using conceptual text analysis method. Copper and Schindler (1998), emphasize the value of personal interview when they stated that it enables in depth and detailed information to be obtained.

### 3.4 Data Analysis

The data collected which is qualitative in nature, was analyzed using conceptual content analysis which is best suited method of analysis, content is defined by Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends.

According to Mugenda and Mugenda (2003) the main purpose of content analysis is the study existing information in order to determine factors that explain a specific phenomenon. To conduct the conceptual content analysis, the data collected will be coded on the theme basis of strategic responses, vision, strategies adopted to respond to the external environment and various organizational responses, levels of competition and implementation in as far as globalization and liberalization of the industry is concerned.

# CHAPTER FOUR
# DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results presented were based on the research questions. The data was gathered exclusively from interview guide as the research instrument. An interview guide was designed in line with the objectives of the study. The data was presented in qualitative research form followed by discussions of the data results. The chapter concludes with critical analysis of the findings.

## 4.2 Background of the Respondents

### 4.2.1 Respondents Years with the Company

**Table 4.1: Length of Service at Shell B.P.**

| | Frequency | Percentage |
|---|---|---|
| Less than 1 year | 0 | 0 |
| 1 to 3 years | 1 | 12.5 |
| 4 to 6 years | 4 | 50 |
| Above 6 years | 3 | 37.5 |
| **Total** | **8** | **100** |

It was determined that majority of the respondents (50%) indicated that they had worked in the company for a period of 4-6 years while 37.5% indicated that they had served in the same company for more than six years. 12.5% of the respondents indicated that they were in the Shell B.P. for a period of 1 to 3 years and while none had served there for less than one year.

### 4.2.2 Years in the Current Position

**Table 4.2: Length of Service at Your Current Organization**

| | Frequency | Percentage |
|---|---|---|
| Less than 1 year | 2 | 39.0 |
| 1 to 3 years | 6 | 61.0 |
| 4 to 6 years | 0 | 0.0 |
| Above 6 years | 0 | 0.0 |
| **Total** | **8** | 100.0 |

It was established from the study that majority (61%) of the respondents indicated that they had served at their current organization for of 1-3 years while 39% indicated that they have served for a period less than one year. And none of the respondents indicated that they had served for between four and six years neither, nor more than six years as indicated in the table above.

### 4.3 Respondents Role in the Company's Strategies Formulation Process

It was determined from the study that the respondents indicated that they were involved in the examination of the current status/ situation by gathering and analysis of the information, identification of the trends within their scope of duty, assessment of the potential impacts of the trends and guiding other employees in attaining the goals set by the organization.

The finance manager indicated that his role was to supervise financial services, sales representatives or associates (partners) to ensure they meet business performance requirement and also overseeing project management, sever administration it compliance, security, application development and the overall technical leadership role. He also indicated that he was also involved in the planning, organizing, directing

and controlling the company's financial activities such as procurement and utilization of funds as well as allocations.

The customer care manager indicated to she was involved in taking care of all internal and external communications as well as help build recognition for the company in a positive way. She was also involved in the achievement of the company's goals and develops the people reporting to them. As well as the planning, implementation and control of sales programs and training and keeping the sales force motivated. The sales manager indicated that his role was to achieve the company's overall sales goals. He cited that he also hired & managed the company's sales force to achieve maximum success while the marketing manager indicated that he was assigned to the development of products and services for the company and successfully introduce them to the market through advertising and distribution of goods and service to the consumer as well as business

## 4.4 Effects of Changes in the Macro Environment

### 4.4.1 Economic Changes

The study sought to determine the effects of economic changes and the ways in which they affect the performance of the Shell BP Kenya Ltd. It was determined that the respondents indicated that due to the recent inflation in the country, the consumption level of the petroleum products has declined significantly due to the low purchasing power.

### 4.4.2 Legal & Political Changes

It was determined from the study that the various legal and political changes in the country has profoundly affected the performance of the Shell BP Kenya Ltd. The respondents indicated that due to the recent regulation by the government in the setting of the petroleum prices reduced the profits of the company significantly due to the price ceiling as the government did not account for the stock the company had acquisitioned at higher prices and it had to sell it before introducing the new prices as stipulated the ERC. The respondents indicated that the political climate has been unstable in the country and this attributed to the unreliable supply of the products countrywide and this led to the low profitability of the company.

### 4.4.3 Socio-Cultural Changes

The respondents indicated that the social cultural did not have much greater influence on the effects on the performance of the Shell BP Kenya Ltd. It was established that the consumption of kerosene sold by the company had drastically decreased as the consumers shifted to the LPG of which the respondents indicated that there was a slight increase in the consumption of this product and it might be attributed to the usage of other LPG by the other rivalry competitors in the sector.

### 4.4.4 Technological

It was established from the study that the technological change influenced the strategies adopted by the company in the sale of the company's products. It was established that the company did integrated several platforms such as the internet-based social media such as the Twitter, Facebook, Linkedl for the marketing of its products and services and increasing the company's popularity.

## 4.5 Effects of Changes in the Industry Environment

### 4.5.1 Rivalry among Competitors

It was established that increased competition led to the need to increase platforms of advertisement from social media to electronic billboards, internet pop-ups and all other forms of advertising that made it more expensive. There is a lot of competition so there is the need to surpass the value offered by competitors by introducing new and unique products and services. It was established that with constant emerging competition the company must have the funds to stay ahead but without lowering their products. The sales department indicated that the company faced stiff competition in the industry thus the need for a SWOT analysis to know the product better than the competition and this required spending money to come up with and implement sales strategies to beat their competitors.

### 4.5.2 New Entrants/Companies

It was determined from the study there are quite a number of new companies that sell petroleum products in Kenya. There are currently about 15 companies active in the Kenya market, although more than 50 have been licensed (Karwigi, 2011). The main companies, which account for over 80% of the market, are BP/Shell, Caltex, Total/Elf, Mobil, Agip and Keno -Kobil. Except for Kenol, which has a 100% Kenyan equity shareholding, all the other 7 major companies are foreign owned. Local shareholding in Total Kenya is about 20%. Total -Kenya and Kenol are the only companies. The other players are Alba Petroleum, Engen(K), Fuelex Oil, Jovenna from South Africa, Galana, Mafuta Products and National Oil Corporation of Kenya (NOCK). Fuelex, which is the largest local company accounts for less than one percent of the market share.

### 4.5.3 Threat of Substitutes

It was established from the study that the company is facing stiff competition from the substitutes/ other sources of energy such as the biogas, solar energy and the biofuel which are cheaper as opposed to the fossil fuels and this has inclined the company to adopt vigorous and intensive advertising to remain competitive in the market.

### 4.5.4 Changes in Bargaining Power of Suppliers

It was determined that the suppliers of petroleum products to the Shell BP Kenya Ltd were mainly government parastatals mostly the NOCK and the KPL who regulated the prices of the products. Shell BP Kenya Ltd being one of the players in the petroleum industry did not experience advanced changes in the case of the bargaining power in the supply of the products.

### 4.5.5 Changes in Bargaining Power of Buyers

It was established from the study that the buyers of company's outputs can lower that industry's profitability by bargaining for higher quality or more services and playing one firm against another by the migration to other companies offering the same services. The Shell BP Kenya Ltd did not experience cases whereby the buyers had the bargaining power as the products sold by all firms in the country were regulated by the Energy Regulatory Commission (ERC).

## 4.6 Responses to Cope with the Environmental Changes

### 4.6.1 Expanding its Branches

It was determined that Shell BP Kenya Ltd had opened several petrol stations in the country in a bid to increase its customer coverage. Most of the respondents indicated the company had significantly managed to reach more customers with this and the profitability of the company had significantly increased.

### 4.6.2 Promotions/Offers

It was established from the study that the Shell BP Kenya Ltd had initiated several promotion methods which was aimed to increase the number of customers both for car owners and those who use petroleum products for domestic use. The promotion was success as the number of the customers increased significantly.

## 4.7 Effects of the Response Strategies

It was established from the study that the company has been able to keep abreast with the emerging trends to stay ahead of the competition, reaching out to the grass roots to broaden their customer base. It was indicated that the company was trying to reach out to the market that has not yet been penetrated and creating services that are relevant to them thus increasing their market base. It has also as well been using aggressive advertising campaigns and increasing CSR activities. It was also indicated that the company has been successful which is evident in the fact that they had managed to achieve their targets.

# CHAPTER FIVE
# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents discussions of the key findings presented in chapter four, conclusions drawn based on such findings and recommendations there-to. This chapter is, thus, structured into discussions, conclusions, recommendations and areas for further research.

## 5.2 Summary of the Findings

With the recent inflation in the country, the consumption level of the petroleum products has declined significantly due to the low purchasing power and this has led to the decline in the consumption of the petroleum products that are sold by the company to both the domestic use and the transport industry.

The various legal and political changes in the country have profoundly affected the performance of the Shell BP Kenya Ltd. The recent regulation by the government in the setting on the petroleum prices reduced the profits of the company significantly due to the price ceiling as the government did not account for the stock the company had acquisitioned at higher prices and it had to sell it before introducing the new prices as stipulated the ERC. The respondents indicated that the political climate has been unstable in the country and this attributed to the unreliable supply of the products countrywide and this led to the low profitability of the company.

The social cultural did not have much greater influence on the effects on the performance of the Shell BP Kenya Ltd. It was established that the consumption of kerosene sold by the company had drastically decreased as the consumers shifted to the LPG of which the respondents indicated that there was a slight increase in the

consumption of this product and it might be attributed to the usage of other LPG by the other rivalry competitors in the sector. Technological change influenced the strategies adopted by the company in the sale of the company's products. It was established that the company did integrated several platforms such as the internet-based social media such as the Twitter, Facebook, Linkedl for the marketing of its products and services and increasing the company's popularity

Increased competition led to the need to increase platforms of advertisement from social media to electronic billboards, internet pop-ups and all other forms of advertising that made it more expensive. There is a lot of competition so there is the need to surpass the value offered by competitors by introducing new and unique products and services. With constant emerging competition the company must have the funds to stay ahead but without lowering their products. The sales department indicated that the company faced stiff competition in the industry thus the need for a SWOT analysis to know the product better than the competition and this required spending money to come up with and implement sales strategies to beat our competitors

It was determined from the study there are quite a number of new companies that sell petroleum products in Kenya. It was also established from the study that the company is facing stiff competition from the substitutes/ other sources of energy such as the biogas, solar energy and the biofuel which are cheaper as opposed to the fossil fuels and this has inclined the company to adopt vigorous and intensive advertising to remain competitive in the market.

The suppliers of petroleum products to the Shell BP Kenya Ltd were mainly government parastatals mostly the NOCK and the KPL who regulated the prices of

the products. It was established from the study that the buyers of company's outputs can lower that industry's profitability by bargaining for higher quality or more services and playing one firm against another by the migration to other companies offering the same services. Shell BP Kenya Ltd did not experience cases whereby the buyers had the bargaining power as the products sold by all firms in the country were regulated by the Energy Regulatory Commission.

Shell BP Kenya Ltd had opened several petrol stations in the country in a bid to increase its customer coverage. Most of the respondents indicated the company had significantly managed to reach more customers with this and the profitability of the company had significantly increased. The company had initiated several promotion methods which were aimed to increase the number of customers both for car owners and those who use petroleum products for domestic use. The promotion was success as the number of the customers increased significantly.

It was established from the study that the company have been able to keep abreast with the emerging trends to stay attend of the competition, reaching out to the grass roots to broaden their customer base. It was indicated that the company was trying to reach out to the market that has not yet been penetrated and creating services that were relevant to them thus increasing their market base.

### 5.3 Conclusions of the Study

It can be concluded that there strategies adopted by SHELL BP Kenya LTD to cope with environmental changes in Kenya and this included the expanding its branches, promotions/offers, increasing the advertisement due to the competition from the new entrants in the industry as well as the existing companies. The company did utilize the

market strategy of penetration in the opening of the branches countrywide and the diversification of the products provided by the company.

### 5.4 Recommendations for Policy and Practice

It can be recommended that the SHELL BP Kenya LTD should incorporate other strategies in its bid to cope with environmental changes. The company should utilize more methods of competing with its rival firms in the petroleum sector so that it can gain competitive advantage in the provision of its products and thus command a bigger market share. The company should diversify on the products and services it provide.

### 5.5 Limitations of the Study

The respondents were reluctant to answer the questions asked but this was overcome by clearly explaining the core objective of the study. The other limitation was the unwillingness of the respondents to give more comprehensive information about their response strategies.

### 5.6 Suggestions for Further Study

This study aimed at strategies adopted by Shell BP Kenya Ltd to cope with environmental changes in Kenya. The same study should be carried out in other companies and establish the various strategies adopted by them to cope with the environment change. The study utilized interview guide on which the findings were subjective to the opinions of each respondents and in future studies, other instruments of data collection should be utilized. The sample size used in this study was top level management who were eight and to this end, future studies dealing on the same should use a larger sample size to increase the reliability of the data collected.

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# APPENDICES

## Appendix I: Cover Letter

**Caroline W Mwangi,**
**University of Nairobi,**
**P.O BOX, 30197**
**Nairobi.**
**August 2012**

**Dear Sir/Madam,**

**RE: DATA COLLECTION**

I am a postgraduate student at University of Nairobi undertaking a Master of Business Administration degree Program majoring in Strategic Management. One of my academic outputs before graduating is a thesis and for this I have chosen the research topic "strategic responses by Shell Oil Company limited to environmental changes".

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the interview guide. The information you provide will be used strictly for academic purposes and will be treated with utmost confidence.

A copy of the final report will be available to you upon request. Your assistance will be highly appreciated.

**Yours sincerely,**

**CAROLINE W MWANGI**

**Appendix II: Interview Guide**

1. Interviewee's managerial position:_____
2. Years with the Company:_____
3. Years in the current position: _____
4. What is your role in the company's strategies formulation process?
5. What changes in the macro environment would you consider to be affecting Shell BP Kenya Ltd?
   (a) What economic changes? How are the changes affecting Shell BP Kenya Ltd?
   (b) What legal & political changes? How are the changes affecting Shell BP Kenya Ltd?
   (c) What socio-cultural changes? How are the changes affecting Shell BP Kenya Ltd?
   (d) What technological changes? How are the changes affecting Shell BP Kenya Ltd?
   (e) What demographic changes? How are the changes affecting Shell BP Kenya Ltd?
6. What changes in the industry environment would you consider to be affecting Shell BP Kenya Ltd?
   (a) What changes in rivalry among competitors? How are the changes affecting Shell BP Kenya Ltd?
   (b) What changes in threat of new entrants? How are the changes affecting Shell BP Kenya Ltd?
   (c) What changes in threat of substitutes? How are the changes affecting Shell BP Kenya Ltd?

(d) What changes in bargaining power of suppliers? How are the changes affecting Shell BP Kenya Ltd?

(e) What changes in bargaining power of buyers? How are the changes affecting Shell BP Kenya Ltd?

7. What other changes are affecting its performance not mentioned above?
8. What is Shell BP Kenya Ltd doing to cope with the changes to reduce their adverse effects?

   (a) Is it, for example expanding its branches? How effective does Shell BP Kenya Ltd find the strategy?

   (b) Is it, forming mergers and acquisitions? How effective does Shell BP Kenya Ltd find the strategy?

   (c) Is it, doing massive advertising? How effective does Shell BP Kenya Ltd find the strategy?

   (d) Is it, doing any promotions/offers? How effective does Shell BP Kenya Ltd find the strategy?
9. Overall, do you think the company has successfully responded to this environment changes? How? Explain?