CREATING AND SUSTAINING COMPETITIVE STRATEGIES BY TOTAL KENYA LIMITED IN A CHANGING ENVIRONMENT

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A Management research project submitted in partial fulfillment of the requirements for the award of Master of Business Administration Degree, School of Business, University of Nairobi

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DECLARATION

This research project is my original work and has not been submitted for award of degree in this or any other university.

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This management research project has been submitted for examination with my approval as university supervisor.

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This research would not have been possible without the input of my supervisor, Dr Mohamed, who tirelessly guided me throughout the course of the research study. I am also grateful to the respondents whom I interviewed and who helped me get relevant information.

DEDICATION

This study is dedicated to my dear wife and daughter for their love, support, patience and encouragement. Also to my parents, brothers and friends for their encouragement and prayers too.

ABSTRACT

The oil industry in Kenya is very dynamic due to very many factors among them the unpredictable fluctuations of oil prices in the international market, volatility in the foreign exchange market and also the unpredictable political environment. As a result, the industry is characterized by intense competition which means that oil companies with competitive advantage survive while those without find it had to operate profitably. These has seen quite a number of multinational oil companies winding up business. Among them include Agip, Mobil, Esso, Caltex and recently Chevron which was bought by TKL.

Total Kenya Ltd is a multinational oil company. It was first established in Kenya in 1976 and was known as total oil products limited. Initially when it was established in Kenya, it was owned 100% by Total Outremer from France. In 1985, Total Outremer sold 25% of its shareholding to Kenyan investors and since then, it has continued trading as Total (K) Ltd and as a public company trading its shares at Nairobi stock exchange. The current market price of its shares at Nairobi stock exchange (NSE) is an average of Kshs31. The company markets products like Diesel, Super, Regular, Fuel oil, Ido, LPG, Bitumen and Lubricants. As a result of its deliberate market expansion strategy, it bought off Chevron interests in Kenya and is currently a market leader in the oil business in Kenya with a market share of 36.2%. The findings of the study revealed that the company creates its competitive strategies relevant to respective sections by involving the staff working in those sections and their seniors. First, the main objectives as captured in the vision and mission statement is cascaded downwards from the departments then to the various sections. The overall company objectives of the company include: to market quality

petroleum products, to operate profitably and to give shareholders the highest returns. In a bid to sustain these strategies, my study revealed that the company has adopted various ways to achieve this. Firstly, through the merger between TKL and Chevron, the company became the market leader and significantly increased its profitability. The study also revealed that the company uses market focus strategy by use of its Bon Voyage card to target and lock in customers and sharing of storage facilities to reduce operational costs.

The researcher recommends further studies to be done on the extent or impact of strategic responses by TKL on existing strategies so to determine the most cost effective responses that will not ultimately increase the cost of doing business or those that will not necessarily affect the way the company sustains its existing competitive strategies.

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LIST OF ACRONYMS AND ABBREVIATIONS

MJT ....Mombasa Joint Terminal

NJD ....Nairobi Joint Terminal

NRS ....Nairobi Refueling Servces

MRS ......Moi Refueling Services

KRA ......Key Result Areas

AGO ......Automotive Gas Oil (Diesel)

PMS ......Premium Motor Oil (Super)

IDO ....Industrial Diesel Oil

F.OIL .....F. Oil

LPG ....Liquified Petroleum Gas

TKL ......Total Kenya Limited

CHAPTER ONE: INTRODUCTION

1 Background of the study

According to Ansoff (1965), an organization must adapt to the environment. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what other relevant stakeholders are likely to do and realign themselves to strategies that give them an edge over competitors. He further noted that each level of environmental turbulence has different characteristics that require unique strategies and different firm capabilities.

1.1 Overview of competitive strategies

Porter (1980) observes that every firm competing in an industry has a competitive strategy, whether explicit or implicit. He points out that the competitive strategy enables the firm to achieve a profitable and sustainable position against the forces of industry competition. According to Barney (1997), competitive strategies are used by firms to out do competing firms, be they be rivals, substitutes or new entrants. Thompson and Strickland (1996) argue that since each company has its own specific situation and market environment, there are as many competitive strategies as there are companies trying to compete.

Mintzberg (1979) says that managers will understand the environment around the firm and will develop organizational decisions that maintain a pace of change in the firm in response to the environment. According to Ansoff and Mc Donnell (1990), managers monitor changes in the environment and adopt strategies to match the turbulence level of the environment. Porter (1980) observes that the success of every organization is determined by its responsiveness to the environment. To retain competitiveness, organizations need to examine their environment and respond accordingly.

Pearce and Robinson (2007) notes that business managers evaluate and choose strategies that they think will make their businesses successful. They point out that successful businesses possess some advantage relative to their competitors. Ansoff (1965) argues that a strategy enables management to guide the firm and allows outsiders to see where the firm is heading and that without a strategy, the firm will lack focus and coordination that is necessary for success and growth. From these various views of strategy, we note how inter-related organizations are to their external environment. The external environment is constantly changing and the organization needs to come up with strategies to match the environment in order to survive and thus organizations are broadly viewed as environment serving.

Porter (1980) defines competitive strategy as being different. This requires deliberately choosing to perform activities differently or performing different activities better than rivals to deliver a unique mix of value. Ansoff and Mc Donnell (1990) define competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in the market. Johnson, Scholes and Whittington (2006) view competitive strategy as the basis on which a business unit might achieve competitive advantage in its market. They argue that organizations achieve competitive advantage by providing their customers with what they want or need better than competitors.

Winning business strategies are grounded in sustainable competitive advantage. A firm has sustainable competitive advantage when it has an edge over its rivals in attracting customers and defending against competitive forces (Thompson and Strickland, 2003). Porter (1980) identifies three generic competitive strategies which a firm can apply to gain competitive edge over its rivals in a competitive environment. These strategies are, overall cost leadership, differentiation and focus strategy.

A firm can achieve overall cost leadership by efficient utilization of its production resources, installation of more efficient machines, pursuit of cost reduction measures like overhead control, bulk production to lower unit cost through economies of scale, preferential access to raw materials etc. Lower cost relative to competition takes centre stage in the firm. Cost leadership enables a firm to compete through price reduction. This strategy enables a firm to be successful even when it is operating in a price sensitive market in a competitive environment.

Porter (1980) argues that a firm can differentiate its products by creating something that is perceived industry-wide as unique. This can be achieved through new product design, superior brand image, creation of innovative product features, high product quality, superior customer service etc. The firm can then advertise its product to raise awareness on the uniqueness of its product features and build strong brand recognition. This will lead to customer loyalty and better margins through higher prices and less customer price sensitivity.

Porter (1980) argues that a firm can adopt a focus strategy by concentrating on a narrow segment either in products or markets. The firm achieves competitive advantage by specializing in servicing a particular market better than competitors whose approach is broader.

1.1.2 Benefits of competitive strategies in a firm

The main objective of profit making organizations in the long run is to maximize their profits. Some of the ways of doing this is to ensure excellent performance of the different departments within these organizations. Performance efficiency is the ratio between effort expended and results achieved. This is an abstract concept that must be represented by concrete, measurable phenomena or events to be measured. The performance indicators can be growth of the organization in terms of: - market share, return on investment, return on equity, growth in revenue and profitability. (Manyuru 2005).

At any one given time, most organizations focus to enhance either one or two performance indicators (PI). As a result of this, firms employ the best and appropriate competitive strategies that will enable them attain the intended performance indicator. For instance if a firm desires to increase its market share, it will employ diversification strategies i.e. introducing different line of differentiated products, likewise a firm can employ market penetration strategies to be able to enter new markets. Nonetheless, in a market set up, one rife with cut throat competition, a firm has to distinguish itself from others through a competitive edge. This involves trading in the same goods and services like competition but doing it differently. Porter (1980) pioneered the thinking in this field when he proposed the three generic strategies by which an organization can achieve competitive advantage. The generic strategies are approaches to outperforming competitors in an industry. They are; overall cost leadership, differentiation and focus. He also indicated that the essence of strategy formulation is coping with competition. Competition determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, cohesiveness, cohesive culture and good implementation. Indeed a firm with little or no competitive edge is like a ship with no navigation equipment in stormy waters, it can be swayed anywhere by the raging currents.

1.1.3 The oil industry in Kenya

The petroleum industry in Kenya was liberalized in October 1994. This in effect meant removal of government controls and restrictive regulations in the industry while opening the market to competitive forces. In 2001, the number of oil marketers trading in Kenya was eleven (Chepkwony, 2001). In 2007, the number of oil marketers trading in Kenya had risen to twenty six (Petroleum insight, 2008). Most of these new entrants trade only in fuels. This has greatly increased the level of competition in the fuels market and companies have been forced to come up with new strategies in order to survive and grow. As the fuels market becomes more and more competitive, the main oil companies now place more emphasis in related petroleum products like Liquefied Petroleum Gas (LPG) and lubricants. Competition is thus shifting to these products as well. Likewise, some have convenience stores and restaurants. All these are meant to make the customers buying fuel more comfortable in a one stop shopping experience.

Before the petroleum industry was de-regulated, the major players in the market were Esso Kenya, Agip Kenya, BP Kenya, Caltex Oil Kenya, Kenya Oil Company (Kenol), Kenya Shell, Kobil petroleum, Mobil Petroleum and Total Kenya (Murage, 2001). Oil market is today dominated by the major oil companies in Kenya. These companies are Kenya Shell Ltd, Total Kenya Ltd, Libya Oil Kenya Ltd and Kenya Oil Company (Kenol) Ltd /Kobil Petroleum Ltd (Petroleum Insight, (2008). Oil marketers who have quit the Kenyan market since deregulation are Esso Kenya Ltd, Agip Kenya Ltd, BP Kenya Ltd. and Mobil Kenya Ltd. Caltex Kenya Ltd (renamed Chevron Kenya Ltd) is reported to have exited Kenya as well (Petroleum Insight, (2008).

1.1.4 Total Kenya Limited

Total Kenya Ltd is a multinational oil company. It was first established in Kenya in 1976 and was known as total oil products limited. Initially when it was established in Kenya, it was owned 100% by Total Outremer from France. In 1985, Total Outremer sold 25% of its shareholding to Kenyan investors and since then, it has continued trading as Total (K) Ltd and as a public company trading its shares at Nairobi stock exchange. The current market price of its shares at Nairobi stock exchange (NSE) is an average of Kshs45.

Total Kenya Ltd trades in oil products like Diesel, Super, Regular, Fuel oil, Ido, LPG, Bitumen and Lubricants. As a result of its deliberate expansion strategy, it bought off Chevron interests in Kenya and is currently a market leader in the oil business in Kenya with a market share of 36.2% followed by Kobil at 25%, Shell at 22%, Nock at 8% and 8.8% to the rest of small oil marketers. Its annual turnover stands at Kshs48billion (year

2009).

Total Kenya has a couple of business strategy interests of concern. Firstly, it has a country wide presence in terms of its retail business. It now owns a lubricant blending plant from where it supplies East and Central Africa region with Total (K) Ltd branded lubricants. It currently has a total of 187 service stations with a main office workforce of 360 employees. Its head quarters are situated on Limuru road, parklands.

1.2 Statement of the research problem

Isaboke (2001), in his study on strategic responses by oil multinationals found out that, established oil firms form alliances like sharing storage facilities and deliberately rolling out an extensive retail network. All this he noted makes it very expensive for new entrants since they will have to inject huge capital in starting a business in the oil industry. Isaboke (2001) did not however highlight specific competencies derived from such arrangement. This study will seek to unravel the strategic benefits that Total Kenya Limited accrues from such arrangements and how such arrangements help it build a competitive strategic platform over its competitors.

Murage (2001), in his study on competitive strategies adopted by members of the Kenya petroleum dealer association, noted that this association was deliberately started to marshal opposition to the established oil multinationals. In his study he noted that this association adopted a low pricing strategy and a deliberate positioning of their stations next to a multinational's in a bid to get more customers. This study will also seek to identify strategic responses that Total Kenya Limited employs whenever independents open shop next door and how Total Kenya Limited turns such threats to opportunities. From these studies, it is clear that firms adopt different competitive strategies which are unique in each context, and this begs the question, in spite of the challenging oil market in Kenya which has led many industry players to quit, how does Total Kenya Limited create and sustain its competitive strategies in an otherwise very competitive business environment?

1.3 Objective of the study

The objective of the study is two fold:

i. To determine how total crafts business strategies in relation to attempting to capture new markets, sourcing of products, distribution of products, marketing of the products and the use of a management system called SAP.

ii. Secondly, is to establish how strategies in relation to all the areas mentioned above are sustained in an otherwise a very dynamic business environment.

1.4 Importance of the study

The findings of this study will benefit a number of interest groups. The managers of oil firms may use the research findings and recommendations to position themselves and compete effectively in the market. This is so because many multinationals in this industry continue to exit the market and yet Total Kenya limited is keen on even acquiring more market share. This study will enhance their understanding between the strategies in use and organizational performance.

My study will identify how Total Kenya limited crafts and sustains its competitive strategies. This is critical to new entrants because the choice of strategy that will make a firm succeed in the market has a direct correlation to the resources to be employed when making entry into the market. This study will highlight entry barriers in the oil industry and what they portend in terms of favorable access and doing business in the oil industry. The study will highlight strategic options that Total Kenya limited utilizes and this will help the new entrants understand the strategic issues they will have to address as they venture into the business.

To researchers, academicians and scholars this study will seek to enrich them with knowledge of strategic issues a leading firm employs to stay afloat and possibly open up new areas for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

The concept of strategy has its historical origin in the military campaign against an enemy. Strategy, however, is contrasted with tactics which is mere employment of allocated resources (Ansoff, 1965). Ansoff (1965) views strategy as a common thread between the present and the future products or markets and which would enable outsiders to see where the firm is heading. He argues that without this strategy, the firm will lack focus, coordination and pro activity necessary for success and growth. Mintzberg (1979) views strategy as the mediating force between an organization and its environment. The argument is that managers will understand the environment around the firm and will develop organizational decisions that maintain a pace of change in the firm in response to the environment.

According to Ansoff and McDonnell (1990), strategy is a set of decision making rules for guidance of organizational behavior. Such rules consist of the firm's objectives, a business strategy developing the firm's relationship with its external environment, an organizational concept and operational policies for the day to day administration. Thompson and Strickland (1996) look at strategy as a pattern of actions managers employ to achieve the targeted organizational performance. They view strategy as a blend between deliberate, planned actions and reactions to un-anticipated developments within and without the company. They argue that a firm's strategy should produce a good fit between the firm internal capability and its external environment. To Hax and Majluf (1996), strategy is a multi dimensional concept embracing all the activities of the firm.

They see strategy providing the firm with a sense of unity, direction and purpose while incorporating necessary changes induced by the environment.

According to Johnson, Scholes and Whittington (2006), strategy is the direction and scope of an organization over the long term. The strategy achieves advantage for the firm through its utilization of resources and competences to fulfill stakeholders' expectations. They further argue that strategy exists at three levels in the firm; the corporate level, the business level and the operational level. Pearce and Robinson (2007) identify strategy as a company's game plan providing a framework for managerial decisions. They observe that strategy involves large scale, future oriented plans for interacting with the competitive environment to achieve the company's objectives. Though there is no universally agreed definition on strategy, it's clear that strategy is about managerial decisions that position the firm in its environment and enable it to be competitive in the long term.

2.2 Concept of Competitive Strategy

Porter (1980) argues that every firm competing in an industry has a competitive strategy, whether explicit or implicit. He says that a competitive strategy relates a company to its environment, the key aspect of which is the industry it competes in. Porter (1985) defines competitive strategy as the search for a favorable competitive position in an industry. The competitive strategy enables the firm to achieve a profitable and sustainable position against the forces of industry competition. Ansoff (1965) concurs and defines competitive strategy as the distinctive approach which a firm uses to succeed in the market. According to Barney (1997), competitive strategies are used by firms to out do competing firms. He observes that firms pursue competitive strategies when they seek to improve their performance in a specific market or industry.

Thompson and Strickland (1996) note that competitive strategy consists of all the moves a firm is taking to attract customers, withstand competitive pressures and improve its market position. It is what a firm is doing to outwit rival companies and gain competitive advantage. They argue that since each company has its own specific situation and market environment, there are as many competitive strategies as there are companies trying to compete. According to Johnson et al. (2006), competitive strategy is the basis on which a business unit achieves competitive advantage in its market. Thompson, Strickland and Gamble (2007) observe that a company achieves competitive advantage whenever it has some edge over rivals in attracting customers and coping with competitive forces. They look at competitive strategy as the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals.

The concept of competitive strategies has largely been attributed to the work of Michael Porter. Porter (1980) views an effective competitive strategy as taking an offensive or defensive action to create a defendable position in an industry to cope with competitive forces and yield a superior return on investment for the firm. Competitive strategy not only responds to the environment but also attempts to shape that environment in a firm's favor. This however tends to contradict Ansoff who is a strong proponent of the issue that firms are environment serving and that they change to conform to the dictates of the environment. Knowledge of the competitive forces and the firm's capabilities will highlight areas where the company should confront competition and areas where it should avoid it. Porter (1980) observes that firms have discovered many different approaches or strategies and the best strategy for a given firm is a unique construction reflecting its particular circumstance.

2.3 Sources of competitive advantage

The sources of competitive advantage could be from within or outside the firm. The firm's competitive advantage originates from diverse sources. The industry and the characteristics of the national and international economies act as major sources of external source of competitive advantage (Porter, 1985). Organizational sources such as assets, capabilities, competencies, information knowledge and reputation that are owned or controlled by a firm and which enable it to conceive and implement strategies that improve efficiency, effectiveness and can provide it with sustained competitive advantage (Barney, 1996). A resource only becomes a source of competitive advantage when it meets basic criteria for example it is: - rare, valuable, and non substitutable (Barney, 1996). Prahalad and Hamel (2002) states that core competencies are what matters in situations where firms have to compete within an industry.

Recent studies on the use of internal sources of competitive advantage have shown that leading global firms such as 3M have succeeded in their industry by nurturing and deploying their tangible and intangible resources (Thompson, Gamble, Strickland and Jain (2007)). Also, firms like Honda, Intel, and Sony have achieved tremendous success in the more competitive global arena by exploiting their core competences and capabilities to become winners in the market place (Thompson et al. (2007)).

2.4 Crafting of competitive strategies

According to Arthur et al.(2007), strategy crafting considers where an organization is for example, in emerging industries, in rapidly growing markets, in maturing industries, in turbulent, high – velocity markets, in fragmented industries, striving to sustain rapid growth, in leadership positions, in a run up position or in weak conditions plagued by crisis conditions.

2.5 Rules of crafting new strategies

According to Arthur et al. (2007), the following are tips in crafting successful business strategies:-

a) When crafting new business strategies, place top priority on crafting and executing strategic moves that enhance the company's competitive position in the long term.

b) Be prompt in adapting to changing market conditions, unmet customer needs, buyer wishes for something better, emerging technological alternatives and new initiatives of competitors.

c) Avoid strategies capable of succeeding only in the most optimistic circumstances. A good strategy works reasonably well and produces tolerable results even in the worst of times.

d) Consider that attracting competitive weaknesses is usually more profitable and less risky than attacking competitive strength.

e) Strive to open up very meaningful gaps in quality, service or performance features when pursuing a differentiation strategy.

f) Be wary of cutting prices without an established cost advantage. This is meant to cushion an organization against competitors' reactions especially if reduction in prices leads to price wars.

g) Do not underestimate the reactions and commitment of rival firms. Rival firms are more dangerous when their survival is under threat.

h) Avoid stuck in the middle strategies that represent compromises between lower costs and greater differentiation and between broader and narrow market appeal.

i) Be judicious in employing aggressive moves like of trying to wrestle market share away from rivals. Be the first to first market with the next version of products.

2.6 Strategy making and executing process/phases

According to Arthur et al. (2007), there are five distinct phases in strategy making process. These are developing strategic vision, setting objectives, crafting strategy to achieve the objectives and vision, implementing and executing the strategy and finally monitoring developments, evaluating performance and making corrective adjustments.

2.6.1 Phase 1: Developing strategic vision

A strategic vision describes the route a company intends to take in developing and strengthening its businesses while laying out the company's strategic course in preparing for the future. It further delineates management's aspirations for the business in providing a panoramic view of "where we are going" and a convincing rationale for why this makes good business sense for the company.

Arthur et al. (2007) also noted some of the characteristics of an effectively worded strategic vision. A good vision should paint a clear picture of what the company wants to see, should be forward looking encompassing strategic moves/course management has chartered and is specific enough to provide managers with guidance in making decisions. He further said that there is a distinction between a strategic vision and a mission statement. A strategic vision portrays a company's future business scope (where we are going) whereas a company mission typically describes its present business and purpose (who we are, what we do and why we are here). Company values are the specifics, traits and behavioral norms that company personnel are expected to display in conducting the company's business and pursuing its strategic vision and strategy.

2.6.2 Phase 2: Setting objectives

Objectives are the results and outcomes management wants to achieve. They function as yardsticks for measuring how well an organization is doing. They further pointed out that there are two very distinct types of yardsticks. There are those relating to financial performance and those relating to strategic performance. Financial objectives involve, increase in annual revenues, annual increases in earning per share, annual dividend increases, larger profit margins and increased shareholder value. Some of the Strategic objectives also include, winning x % market share, achieving lower overall costs than rewards, overtaking key competitors on product, performance and deriving x% of revenues from sets of new products introduced within the past five years.

2.6.3 Phase 3: Crafting of strategies and their hierarchy

The task of crafting a strategy entails answering a series of questions like: how to grow the business, how to please customers, how to out compete rivals and how to respond to changing market conditions among others. Various company employees can participate in crafting a company strategy. As Arthur et al (2007) further noted, the CEO wears the mantles of chief direction setter, chief objective setter and chief strategy implementer for the entire organization. He functions as a strategic visionary and chief architect of strategy and personally deciding what the key elements of the company's strategy will be. The CEO may seek advice of other senior managers and key employees in fashioning an overall strategy and deciding on important strategic moves. Arthur et al (2007) identified four strategy making levels which include: corporate strategy level, business strategy level, functional area strategy level and operating strategy level.

The corporate strategy level consist of the kinds of initiatives the company uses to establish business positions in different industries, approaches corporate executives pursue to boost the continued performance of the set objectives the company has diversified into and means of capturing cross-business synergies and turning them into competitive advantage.

The business strategy level concerns the actions and approach crafted to produce successful performance in one specific line of business. The key focus is crafting responses to changing market circumstances and initiating actions to strengthen market position. The business head has at least two other strategy related roles like seeing that lower-level strategies are well conceived and that they are consistent and adequately matched to overall business strategy.

The functional area strategy level concerns the actions, approaches and practices to be employed in managing particular functions or business processes or key activities within a business. Functional strategies add specifics to the business level strategy in terms of supporting the company's overall business strategy and competitive approach. Lead responsibility for functional strategies within a business is normally delegated to the heads of the respective functions, with the general manager of the business having final approval and perhaps even exerting a strong influence over the content of particular pieces of strategies.

Operating strategy level concerns the relatively narrow strategic initiatives and approaches for managing key operating units (plants, distribution centers, geographic units) and specific operating units with strategic significance (advertising campaigns, management of specific brands, supply chain-related activities and website sales and operations). Its importance should not be downplayed because inefficiencies at lower levels ultimately affect the wider organizational objectives.

2.6.4 Phase 4: Implementing and executing the strategy

Strategy implementation and execution involves converting strategic plans into actions and result tests a manager's ability to direct organizational change, motivate people, build and strengthen company competitions and competitive capabilities, create and nurture a strategy-supportive work climate and meet or beat performance targets. They further noted that managing the strategy execution process includes a number of actions like Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, organizing the work effort and allocating ample resources to those activities critical to the strategic success among others.

2.6.5 Phase 5: Evaluating and initiating corrective adjustments

The last phase of strategy making process is monitoring new external developments, evaluating the company's progress and making corrective adjustments. At this point, management can decide to continue fine tuning and executing initial strategy or change it to lime with changes in the external adjustment. Proficient strategy execution is always the product of much organization learning. It is achieved unevenly, coming quickly in some areas and slowly in others. It is both normal and desirable to periodically asses' strategy execution to determine which aspects are working well and which need improving.

2.7 Ways of sustaining competitive strategies

There are various ways in which organizations can sustain competitive strategies. These include use of appropriate organizational structures, adopting strategic alliances and partnerships, engaging in mergers and acquisitions, use of vertical integration strategies, use of both offensive and defensive strategies and finally using organizational capability gaps.

2.7.1 Appropriate organizational structures.

Competitive strategy can be sustained by use of appropriate organization structure. According to Barney (1997) to sustain a relevant and workable strategy, an organization must adopt or change to the right organizational structure. These organizational structures include: simple structure, functional structure, multidivisional structure, holding company structure and matrix structure.

The simple structure can be thought as no formal structure at all because an organization is run by the personal control of an individual. This is predominantly for small businesses. Such structure is best suited to implement market penetration strategies fairly fast as decisions are made fast. It is also easier to sustain the product focus strategy since the chain of command is shorter and the specific needs of the market easily reach the top management.

Functional structure is based on the primary activities that have to be carried out such as production, finance and accounting, marketing and personnel. The structure is typically found in smaller companies or those with narrow rather than diverse, product ranges. However, within multidivisional structure, the divisions themselves are likely to split up into functional management areas. The functional structure is built around business process that cut across the various departments/business. As a result it may be too difficult to reflect the diversity which the organization faces. The work of individuals is planned around a specialist business process and no one has any real ownership of the whole product or client group. Advantages of this structure include, the chief executive is in touch with all operations, it reduces/simplifies control mechanisms and it has a clear definition or responsibilities. This structure has disadvantages like the, senior managers are overburdened with routine matters, senior managers neglect strategic issues, it is difficult to cope with diversity and co-ordination between functions is difficult. It is easier to sustain the market focus strategy since the organization tends to concentrate on a specific market and with specific products.

The multidivisional structure is divided into units (divisions) on the basis of products, services, geographical areas or the processes of the enterprise. It has advantages like concentration on business areas (products/markets), it facilitates measurement of unit performance, it facilitates senior management's attention to strategy and it also encourages general management's development. Some of its disadvantages include possible confusion over focus of responsibility, (centralization/devolution/confusion), conflict between divisions and it is costly to run due to its complexity. The structure is however suited to sustain product diversification strategies and also market penetration strategies.

Holding company structure on the other hand is an investment company consisting of shareholdings in a variety of separate business operations over which the corporate centre exercises simple control. Its business units operate independently and probably retain their original company names. The advantage is that the individual business units will operate their product/market strategy to their best potential if left alone especially when business environments get more violent. Perhaps the greatest weaknesses of this structure are the risk of lack of internal strategic cohesion and duplication of effort between business units. This type of structure comes in handy when organizations want to sustain their market expansion strategies.

And finally the matrix structure is a combination of structures which often take the form of product and geographical divisions or functional and divisional structures operating in tandem. Some of its advantages include improving the quality of decision making and formal bureaucracy is replaced by direct contact between individuals. Disadvantages include risk of dilution of priorities, time taken to make decisions is long and it can be unclear who is responsible. This type of structure can be used to sustain product diversification strategies.

2.7.2 Collaborative strategies (alliances and partnerships)

According to Barney (1997), alliances and partnerships can help an organization effect market penetration strategies as well as new product development/innovation strategies. Therefore, by use of collaborative strategies, organizations are able to sustain their organizational wide strategies and improve on them to become competitive. There are some factors that make alliances strategic or ensure alliances help to sustain the overall organizational strategies like it is critical to the company's achievement of an important objective like building, sustaining, enhancing a core competence or competitive advantage, it also helps block a competitive threat while opening up important new market opportunities.

2.7.3 Mergers and acquisitions

According to Ansoff and Mc Donnell (1990), combining the operations or two companies via a merger or an acquisition is an attractive strategic option for achieving operating economies. It also helps in opening up avenues of new market opportunity. Many mergers and acquisitions are driven by strategies to achieve and sustain strategic objectives like to create a more cost-efficient operation out of the combined companies while expanding a company's geographic coverage and also extending the company's business into new product categories which is well in line with product diversification strategies. Mergers and acquisitions can also help an organization to gain quick access to new technologies or other resources and competitive capabilities which in turn aid organizations achieve R&D at minimal costs.

2.7.4 Vertical integration strategies

Barney (1997), observes that vertical integration extends a firm's competitive and operating scope within the same industry. It involves expanding the firm's range of activities backward into resources of supply and/or forward toward the end users. In other words, it operates across more stages or the industry value chain. This can either be full integration or partial integration. Integrating backwards intends to achieve greater competitiveness derived from cost savings which reinforces the cost leadership competitive strategy. Vertical integration has various advantages like reduced distribution costs, it produces relative cost advantage which in turn results to lower selling prices.

2.7.5 Offensive and defensive strategies

According to Kandie (2001), both offensive and defensive strategies are used to improve on a firm's market position, build a competitive advantage or widen an existing one or better still sustain what they already have. He further observed that the principle offensive strategy option include offering an equally good or better product at a lower price, leap flogging competitors by being the first adopter of next-generation technology products and pursuing continuous product innovation to draw sales and market share away from less innovative rivals. Firms also use defensive strategies to sustain their overall business strategies. The purpose of defensive strategies are to lower the risk of being attached, weakening the impact of any attack that occurs and influence challengers to aim their efforts to other rivals. These strategies help an organization to fortify its competitive position, protect its most variable resources and capabilities from imitation and to defend and sustain whatever competitive advantage it might be.

2.7.6 Capability gaps to sustain competitive strategies

According to Arthur et al. (2007), a capability gap exists when a function responsible for the differentiated product/ delivery attribute is one that only the producer in question can perform or one that competitors could do only with maximum effort. Capability gaps fall into four categories: - business system gaps, position gaps, regulatory/legal gaps and organizational or managerial quality gaps.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the type of research design to be used and why it will be appropriate. It will also highlight the data collection methods and how data shall be analyzed.

3.2 Research Design

This research will be by way of a case study of Total Kenya Limited. A case study allows researchers to understand the nature and complexity of the process that is taking place and answer the 'how' and 'why' questions (Mugenda and Mugenda, 2003). According to Kothari (1990), a case study is a powerful form of qualitative analysis. Young (1999) also pointed out the same to be a comprehensive study of a social unit. The unit of study could be an institution, family, district, community or a person. Kandie (2001) argues that a case study is a form of qualitative analysis where studies are done on institutions and from the study, data generalization and inferences are drawn. According to Patton (2002), a case study provides much more detailed information about a limited number of people and cases. According to Wong (1999), a good research design serves many purposes, it forms the essential framework for research action, minimizes the danger of collecting haphazard data and ensures that data collected meets the research objectives and more importantly it fulfils the information needs of the decision makers.

Exploratory research (qualitative) adopts an informal approach characterized by flexibility and versatility in use. Respondents will be required to provide diagnostic information regarding their thoughts, views and feelings that are easily projected to the whole population. This qualitative research shall give clues to the thinking of the population under study in this case employees of Total Kenya Limited. Therefore, a case study will be considered for this study since it will bring to light the specific details that the study seeks to find out in a more accurate way. Moreover, this study might generate new ways of strategy formulation and sustenance. In addition, suggestions on improved ways of executing strategy might arise.

3.3 Data Collection Method

Primary data will be collected through open ended interviews. In this case respondents will be guided through the interview by being asked predetermined questions so as to have an opportunity to clarify issues and gain any new relevant information for the success of the study. Secondary data will be obtained from published journals in the oil industry for example the Petroleum insight journal, Total's intranet site and internal publication magazine called mambo. According to Kothari (1990), a research has to take precaution before using secondary data and that researcher must always ensure that the data is reliable, suitable and adequate.

3.3.1 Instrument

Data will be collected by use an interview guide. In this case respondent will be required to answer open ended questions as asked by the interviewer.

3.3.2 Respondents

The population of study will be drawn from all levels of the organizational structure. This is because this study will seek to determine the level of engagement in the strategy making process and its implementation on those who will participate. The organizational structure of Total Kenya Limited is the tree type with four levels. At the top most there is a Managing Director. Under him are seven senior departmental heads. Below the departmental heads are sections heads (middle level managers) and at the bottom are junior staff. The study will target all seven senior managers who report to Managing Director, five middle level managers who are section heads and ten junior staff selected two from each section. This sample is appropriate since it cuts across the entire organization and is dependent on my desired level of data precision and the extent of homogeneity of the population element. An identical or same interview guide will be administered to all will be respondents. This will ensure that significant response variations are captured during data analysis and given appropriate interpretation.

3.4 Data Analysis Method

Data collected will be analyzed using content analysis. This is a set of procedures for collecting and organizing non structured information into a standard format that allows one to make inferences about the research objectives. Data will be solicited from respondents and will be analyzed by comparing them with the theoretical approaches cited in the literature review in an attempt to get more revelation on how Total Kenya limited crafts and sustains its competitive strategy.

CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This study was a case study whose objective was to establish how Total Kenya Limited creates and sustains its competitive strategies. The response rate was 90.9% since data was obtained from 20 out of the targeted 22 respondents. Each response was analyzed for content that included relevance and strategic impact in addition to being confirmed by at least one other respondent.

4.2 Setting of objectives

All respondents were required to briefly state the objectives in their respective sections. All of them were able to do so and also indicated that objectives were set by their superiors. In this case, junior officers indicated that the section heads set their objectives whereas middle level managers indicated that the respective departmental heads did so. In turn departmental heads indicated that their objectives were set by the MD in consultation with them. Some departmental heads like manager, Regional Aviation, manager Human Resources and General Administration and Finance Director indicated that their objectives are set from the company's head office in Paris.

The respondents further indicated that there exists various parameters of measuring and/or evaluating the set objectives which are unique and specific to each department or section. However, most respondents highlighted the fact that these objectives are converted to Key Result Areas (KRAs) which are measurable and evaluated quarterly.
Refer to an example of the standard KRA form used as indicated in appendix 2 attached.

4.3 Crafting of the company's competitive strategies

Part of the objectives of the interview guide was to establish how the company crafts its competitive strategies. According to Arthur et al. (2007), there are five distinct phases in strategy making process. These are developing strategic vision, setting objectives, crafting strategy to achieve the objectives and vision, implementing and executing the strategy and finally monitoring developments, evaluating performance and making corrective adjustments. The strategic vision of the company is captured in the mission and vision statement. The respondents were required to indicate if they set objectives and this was confirmed that some do it but in consultation with their seniors. The respondents also indicated that the strategies on how to achieve these objectives are clearly laid down by themselves and their seniors annually when the following years' objectives are set and previous years performance evaluated. See a section from appraisal form of 'setting objectives' in appendix 3 and the company vision and mission statement in appendix 1. The respondents also indicated that these strategies are documented in their respective departmental policy and work manuals. These however are confidential company documents that cannot be availed for any other purpose other than for company use.

4.4 Sustaining competitive strategies

Various ways in which Total Kenya Limited can sustain competitive strategies were identified from the respondents' interview guide. Some of the ways include, use of collaborative strategies, through mergers and acquisitions and through the use of an assortment of resources.

4.4.1 Effect of collaborative strategies in strategy sustenance

According to Barney (1997), alliances and partnerships can help an organization effect market penetration strategies as well as new product development/innovation strategies. The respondents were required to identify collaborative strategies that the company could be using. The most notable ones are alliances and partnerships with competitors in the sharing of storage facilities, product loan and borrow arrangements and sharing of ullage at KPC (Kenya Petroleum Refineries Ltd). The study was able to identify various shared storage locations and this include Mombasa Joint Depot(MJT), Nairobi Joint Depot(NJD), Nairobi Refueling Services(NRS) and Moi Refueling Services(MRS). Below are tables showing the thru - put at the shared Mombasa depot for the three major oil companies before and after the merger between Total Kenya Limited and Chevron Kenya Ltd.

Table 1: Thru put before Merger (July 09 to Sept.09)

COMPANY	THRUPUT	ALLOCATION(%)
CHEVRON	17,541,845	14.32
KOBIL	56,271,790	45.94
TOTAL	48,670,080	39.74
TOTALS(SUMMATION)	122,483,715	100

Table 2: Thru put after Merger (Oct.09 to Dec 09)

COMPANY	THRUPUT	ALLOCATION(%)
CHEVRON	0	0
KOBIL	79,031,277	52.2
TOTAL	72,132,615	47.8
TOTALS(SUMMATION)	151,163,892	100

Note: Thru – put is the volume of product that passes through the depot

From this data, it is noted that the volume of product handled by the shared Mombasa depot rose by approximately 24 million liters after the merger.

4.4.2 Effect of mergers and acquisitions

According to all respondents, the merger between Chevron Kenya and Total Kenya Limited was strategic and bore many benefits. Among the notable benefits the respondents listed include: increased market share, access to more storage space, acquisition of a lubricants blending plant and positive image on the company's performance. Below are tables indicating a positive shift of predetermined parameters before and after the merger.

Table 3: Sales volumes(lts) per product before and after merger

PRODUCT	BEFORE(JUNE 09)	AFTER(JUNE 10)	% INCREASE
PMS	5,516,194	10,349,845	87.60
RMS	679,000	140,000	-79.30
KEROSENE/JET	11,214,239	21,723,072	93.70
AGO	11,668,227	33,249,705	184.90
F.OIL	7,157,557	11,567,344	61.60
LPG	1,197,477	1,795,407	49.90

Table 4: Change in different types of parameters before and after merger

	BEFORE	AFTER	%INCREASE
PROFITABILITY	188,810,076 GM/(kes)	419,295,836GM/(kes)	122.07
MARKET SHARE	19.6	36.2	184.7
NO. OF STAFF	220	360	63.7
NO. OF STATIONS	104	187	79.8

4.4.3 Availability of appropriate resources to sustain competitive strategies

Respondents were required to evaluate if the available resources were adequate for increased company activity. All respondents answered to the affirmative and pinpointed specific available resources as follows: adequate financing of company operations, experienced and well trained staff, use of a super information management system (SAP), extensive retail network, a lubricants blending plant and enhanced storage facilities.

4.4.4 Role of existing company policies in sustaining competitive strategies

The aim of interrogating this aspect was to establish if the existing company policies affect strategy sustenance positively or negatively. Some of the responses from respondents include: that company policies are or roadmaps the company uses to put in place and sustain the company's competitive strategies, that they compliment company strategies, that they are guidelines that redirect company activity into one direction.

4.4.5 Effect of external environment on sustenance of company strategy

Respondents were required to highlight if there are external factors that can affect sustenance of the company's competitive strategies. Various respondents gave the following responses: that sustenance of company strategy was affected by the political chaos that rocked the country in 2007/2008, inefficiencies at KPC and KPRL always disrupts the flow and distribution of fuel, volatility and erratic international oil prices, customer dissatisfactions and losing of experienced and well trained qualified staff. The respondents further pointed out measures the company is taking to avert the effect of these external factors on sustenance of the company's competitive strategies as follows: by deliberately locating storage facilities from potential trouble sports, discourage political patronage by the company, use of leased storage sites to store products, use of privately owned storage locations, in house trainings for staff, adequate stocking, use of forward deals for purchase of foreign exchange and adequate compensation of staff.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations of the study based on the objective of the study. The objective of this study was to establish how Total Kenya Limited creates and sustains its competitive strategies in otherwise a very dynamic environment.

5.2 Summary of findings

My findings are grouped into two categories. The first one is on findings about how Total Kenya Limited creates competitive strategies and a listing of which ones currently in operation. Second category will summarize findings on how the company sustains the identified strategies.

From the study, it was found out that the company vision as captured in the mission and vision statement is the guiding tool in terms of focus. The company vision is cascaded to the very lowest post of the organizational structure and each section is mandated to set objectives and craft relevant strategies to achieve these objectives. It was also noted that the setting of objectives and requisite strategies is done in consultation with a senior staff and in this case a supervisor or a manager. The study also revealed that each department has preset policies and guidelines that stipulates and gives direction as far as the running of each department is concerned. These guidelines are further cascaded downwards to respective sections which are the lowest administrative units within the organization. On the monitoring and appraisal of individual staff performance, the company uses the KRA (Key Result Areas) system. It was noted that by use of this system, the company management is able to allocate each staff specific objectives relevant to their work and appraise to see whether the set objectives are met and if not recommend changes to ensure positive result. The study was also able to pin point the most visible strategies that the company employs to achieve its set objectives and this is as indicated in the table below.

Table 5: Company objectives and strategies

COMPANY OBJECTIVES	STRATEGY	COMPANY STRATEGY
Larger Market Share	Market penetration	Merger with Chevron
Wide product range	Product differentiation	Acquire lubs blending plant
Competitive Pricing	Cost leadership	Sharing of storage locations
Retain/Lock in customers	Market Focus	Use of Bon Voyage card
Widen revenue base	Diversification	Bonjour shops, carwash

The study further found out that the company is able to sustain its competitive strategies as indicated in table 3 above through various ways. By use of alliances with competitors such as sharing of storage locations, the company is able to reduce operational costs significantly and thus passing such benefits to consumers through competitively priced products hence reinforcing its cost leadership strategy. The study was able to identify strategic benefits that its merger with Chevron brought about. By use of the merger, the company was able to sustain its market penetration strategy. The study noted that the company now has access to a larger market than before. The study further identified the increased and vast resources that the company uses so as to be able to retain its market share. As indicated in table 4, the company's service stations increased from 104 to 187 before and after the merger respectively.

5.3 Limitations of the study

This study was not without limitations. The research was based on a case study of TKL and some findings could not be leveraged to other oil marketers to establish their uniqueness. In probing the respondents, the researcher may have left out certain variables that could have highlighted the dimensions of competition in a more exhaustive manner. The study also gives only the perspectives of TKL's staff in respect of dimensions of crafting and sustaining competitive strategy via a vis the way other industry players does it. Time was also a constraint as the researcher had to collect data from senior managers through in depth interviews which took time since the respondents were busy and did not have sufficient time to finish the interview in one sitting. This disrupted the logical flow of data and ease of data analysis. Lastly the content analysis method was used to analyze the qualitative data collected making it impossible to leverage results to other similar organizations.

5.4 Conclusion

In conclusion, the study found out that Total Kenya Limited is keen in setting its objectives and crafting specific strategies to achieve the set objectives. Some of the objectives the company has is to be a leader in the market, to market quality products and to return good profits. In order to achieve these broad objectives, the company has deliberately adopted the following strategies: Market penetration strategies such as the acquisition of Chevron stations through a merger, product differentiation strategies such as the acquisition of the lubricants blending plant, diversification strategies such as running of Bonjour shops and market focus strategies such as the use of Bon voyage card.

5.5 Recommendations

From the findings of the study, market penetration strategies, diversification strategies and market focus strategies seem to be given more emphasis by Total Kenya Limited. This is because these strategies have a direct positive impact on company's main objectives of a lager market share and high profitability. The study therefore recommends that the company should continue to consolidate more resources towards sustaining these strategies since they are proven to deliver expected results.

From the study, it is further recommended that further research can be carried out so as to determine whether strategic responses by TKL are cost effective and their impact on existing competitive strategies.

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www.total.co.ke (Visited on 26th April 2010)

APPENDIX 1: COMPANY VISION AND MISSION STATEMENT

VISION

**To be a leader in the quality
of products and services.**

**To be a leader in profitability
and returns to our
Stakeholders.**

**To be the most responsible
and preferred company in the region.**

♦

MISSION

**The purpose of TOTAL Kenya
Limited is to market quality petroleum
products and service to its customers
responsibly and profitably in an
innovative way to ensure that the public will come
and continue to turn to Total.**

APPENDIX 2: KRA (KEY RESULT AREAS FORM)

Department

Job Title

Overall job goal

Name of employee

KRA(Objective)	Decription(Strategy)	Performance standard and Measurement

APPENDIX 3: APPRAISAL FORM, (SETTING OF OBJECTIVES PART)

HSEQ OBJECTIVE	DESCRIPTION, ASSOCIATED RESOURCES, TIMEFRAME AND INDICATORS:
OBJECTIVE 1	DESCRIPTION, ASSOCIATED RESOURCES, TIMEFRAME AND INDICATORS:
OBJECTIVE 2	DESCRIPTION, ASSOCIATED RESOURCES, TIMEFRAME AND INDICATORS:
Other Objectives	DESCRIPTION, ASSOCIATED RESOURCES, TIMEFRAME AND INDICATORS:

APPENDIX 4: LETTER OF INTRODUCTION

July 2010.

Dear Respondent,

RE: MBA RESEARCH PROJECT

I am a post-graduate student at the University of Nairobi. This interview guide is designed to gather information on how Total Kenya Limited creates and sustains the competitive strategies that enable it have a competitive advantage over its competitors.

This study is being carried out for a Management Project Paper as a requirement in partial fulfilment of the Degree of Master in Business Administration, University of Nairobi.

There are no correct or wrong answers to these questions as they are intended to obtain opinions and views.

The information you will provide will be treated in **strict confidence and is strictly for academic purposes only**. In no instance will your name be mentioned in the report. Further confidentiality will be ensured through the necessary coding of the findings.

Your assistance in filling this interview guide will be highly appreciated.

Yours faithfully

Sylvester ONGWAE

APPENDIX 5: INTERVIEW GUIDE

CREATING AND SUSTAINING COMPETITIVE STRATEGIES BY TOTAL KENYA LTD IN A CHANGING ENVIRONMENT

1) Which department do you work?

____

2) What is your job title?

____

3) What are your main responsibilities?

____

4) How many years have you worked in your current position?

____

5) Does Total Kenya limited have a vision statement?

____

6) Does Total Kenya limited have a mission statement?

____

7) Has both vision and mission statement been changed in the last five years?

____

8) What are some of the objectives you have in your current position?

____

9) Who sets these objectives?

____

10) How are these objectives measured or evaluated?

11) How often are these objectives measured or evaluated?

12) What plans have you put in place to achieve these objectives?

13) Do you have any strategies in your department? If yes what are they?

14) How are these strategies crafted?

15) Are these strategies documented? If yes how?

16) How often are these strategies evaluated and how?

17) Are you aware of any organization wide strategy? If yes, what is it?

18) How does your departmental strategies compare with the wider organizational strategies?

19) Is the CEO in the forefront in providing leadership in the strategy crafting process?. Please explain

20) Do you consider the organization's culture as a hindrance to the sustaining of both organizational and departmental strategy?. Please explain

21) What measures has the organization taken in terms of ensuring that its strategies are not affected by external forces? Please explain

____

____

____

22) Are you aware of any collaboration i.e. alliances and partnerships the organization has with competitors and if so how has these affected its competitive strategies? Please explain

____

____

____

23) In your opinion, what strategic benefits did Total Kenya limited acquired when it bought off Chevron interests in Kenya? Please explain

____

____

____

24) What measures have been taken to ensure Total Kenya Limited's culture is compatible with sustaining the chosen competitive strategies? Please explain

____

____

____

25) In your opinion, are the available resources (Financial, Technological, and human) adequate for the organization's strategy sustenance? Please explain

____

____

____

26) What measures has the organization taken to avail enough resources to enable it create and sustain its competitive strategies successfully?

____

____

____

27) Do existing policies i.e. specific guidelines, methods, procedures and rules pose any challenges to strategy sustenance? Please explain

____

____

____

28) What measures have been instituted to ensure the existing policies support competitive strategies in the organization?

____

____

____

29) Do you experience any uncontrollable factors from external environment that adversely affect strategy sustenance? Please explain

____

____

____

What measures have been taken to minimize the adverse effects on strategy sustenance?

____

____

____

30) Would you say management and staff have requisite skills required to successfully monitor and sustain strategies?

____

What measures have been taken to provide requisite skills for strategy sustenance?

____

____

____

31) Are your reward systems in any way tied to ability to sustain strategies?

____

____

____

What measures have been taken to ensure rewards are tied to sustaining competitive strategies?

____

____

____

The end.

Thank you.