

**STRATEGIC RESPONSE TO THE DYNAMIC ECONOMIC ENVIRONMENT OF  
THE OIL MARKETING COMPANIES IN KENYA**

**BY**

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## DECLARATION

This project is my original work and has not been presented for award of a degree in any University

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## **DEDICATION**

This work is dedicated to my wife, Irene Murungi and my son, Mark Murungi without whose caring support, it would not have been possible to undertake this endeavor, to the memory of my mother, the late Florence Thirindi, who I never got to see but has always remained an inspiration to pursuit of academic excellence and to my sister Grace Kaloki who carried and cried with me in the absence of my mother

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## **ABSTRACT**

As recently as 10 years ago, people thought they knew most of what they needed to know about strategy. Portfolio planning, the experience curve, Michael E. Porter's five forces—tools like these brought rigor and legitimacy to strategy at both the business unit and the corporate level (David). These traditional strategy approaches can soundly answer this central question in stable environments, however these approaches are not directly applicable to dynamic environments and there is currently no final and complete answer that determines the causes for a company's failure or success with their strategies in dynamic environments (Wirtz&Schilke, 2007, pp. 295-296). Having an up-to-date strategy is especially important for companies operating in the oil industry, since this industry, with its global and investment-demanding nature tends to be very turbulent and cyclical. The purpose of this study was therefore to establish the strategic response to a dynamic economic environment of oil companies in Kenya. The study set to address the strategic responses applied by oil marketing companies in Kenya and the impact of these strategic responses and the best suited strategic responses for the Kenya oil marketing industry. To achieve this, the study adopted a descriptive study of oil companies in Kenya. The target population of this study was all 55 oil marketing companies in Kenya. Census method was used is based on the fact that the entire population is sufficiently small with only 55 companies. Data collection was conducted through the use of questionnaires and analyzed through descriptive statistics in order to draw conclusions. The collected data was first coded statistically and thereafter analyzed with the use of a statistical package; SPSS in percentages and frequencies. Thereafter the results were presented via graphs, charts, tables as well as pie charts. The result on strategic response were analyzed in four categories; strategic response being used by oil marketing companies and how the respondents view the extent of their application by the companies, how respondents view the impact of various strategic response to dynamic economic environment of oil marketing companies in Kenya and a combination of strategic response to determine the best for the dynamic economic environment of oil marketing companies in Kenya. The last part looked at respondent's view of the best strategic response to dynamic economic environment. The findings revealed that most oil marketing companies use to a great extent strategic alliances (64 percent), focus market (50 percent), joint ventures (50 percent), as well as corporate diversification (34

percent) as strategies in responding to dynamic economic environment. Further, the results revealed that some strategic responses have low application but would have high impact if they were utilized. Such strategies as Acquisitions and Mergers and Differentiation Strategy both with 67 percent impact have low application of 2 percent and percent respectively. Respondents view Acquisitions and Mergers, Strategic Alliances and Joint Ventures as the most suitable strategic responses to dynamic economic environment of the oil marketing companies in Kenya. The study therefore recommends blending of strategic response that are best suited for the market dynamics; when going for strategic alliances, companies should consider combining this with either joint venture in operations as this provides a platform for cost reduction due to economies of scale, while when a company is considering corporate diversification, it is recommended to combine this with mergers and acquisitions as this provides a faster and established approach to the market diversification as compared to starting from scratch.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

In a broad sense the environment is infinite and includes everything around the organization. However, there are aspects of the environment to which the organization is sensitive and must respond to survive. The external environment comprises factors that originate beyond, and are usually irrespective of, any single firm's operating function. That environment presents firms with opportunities, threats and constraints (Pearce and Robinson, 2005). Kotler and Armstrong (1999) describe forces at work in external environment as dynamic. When businesses see their environment as turbulent and complex they respond to align with the environment (Stalker 1961).

Various environmental factors such as economic environment, socio-cultural environment, political, technological, demographic and international, affect the business and its working. Economic factors concern the nature and direction of the economy in which a firm operates. Economic factors include availability of credit, level of disposable income, interest rates, inflation rates, trends in growth of gross national product and the propensity of people to spend. Economic factors have direct impact on the potential attractiveness of various strategies. (Fred R. David, 2005). Therefore, this paper builds on existing literature to develop a thorough understanding of dynamic environments and successful patterns of strategic response actions applied by Oil Marketing Companies in Kenya in this dynamic economic environment, and based on this understanding; an analysis framework is developed to analyze several strategic response tools.

#### **1.1.1 Concept of Strategic Response**

As recently as 10 years ago, we thought we knew most of what we needed to know about strategy, portfolio planning, the experience curve, Michael E. Porter's five forces –tools like these brought rigor and legitimacy to strategy at both the business unit and the corporate level.....How different the landscape looks today. The armies of planners have all but disappeared, swept away by the turbulence of the past decade. On multiple fronts, strategy has come under fire (David J. Collis and Cynthia A. Montgomery, 2008). Diversity of views on the definition of strategy has evolved over the past years, ranging in terminology from

policies to patterns, (Ansoff and Mc Donnell, 1990). Faced with this uncertainty of concept, Mintzberg (1994) offered not one but five conceptual equivalents of strategy, perhaps hoping that in so doing he could at least encircle the elusive concept: plan - a guide or course of action into the future, ploy - a specific manoeuvre intended to outwit an opponent or competitor, position - determination of particular products in particular markets, perspective - an organization's way of doing things, and pattern - consistency in behaviour over time, (Mintzberg, 1998).

According to Pearce and Robinson (1991), strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It's thus a reaction to what is happening in the organization's environment."The reason why firms succeed or fail is perhaps the central question in strategy" stated Porter (1991, p. 95). While traditional strategy approaches can soundly answer this central question in stable environments, these approaches are not directly applicable to dynamic environments and there is currently no final and complete answer that determines the causes for a company's failure or success with their strategies in dynamic environments (Wirtz, Mathieu, &Schilke, 2007, pp. 295-296). Classic economic theory supports the view that the strategic response of individual companies is significantly dependent upon global and environmental factors (Nigel, 2006a; Wissema, 2001).

Academicians and practitioners are in agreement that change is a constant feature of organizational life (Burnes, 2004; Causon, 2004; Staniforth, 1996), and therefore organizations must learn how to timely respond to the changes by adjusting their strategy. Strategic Response has thus become a primary concern for business managers at that time in history when competitors gained sufficient market power to be capable of affecting the prospects of their rivals, which, for the most part, occurred well within the twentieth century. The field has moved beyond defining strategy as a formal plan (Mintzberg, 1994). The essence of strategy is not the structure of a company's products and markets but the dynamics of its behavior (George Stalk, Philip Evans, and Lawrence E. Shulman, 1992). According to Barney and Hesterly (2008), Strategy is a theory about how to gain competitive advantages. Either formally or informally, organizations thus develop strategies that often times dictate a change in an organization's status quo (Kinuu, 2007).

The true importance of strategic response then is observed during conditions of combat and competitive threat within markets. The field has moved beyond defining strategy as a formal plan (Mintzberg, 1994). It is the art of Strategic Response

### **1.1.2 Economic Environment**

Pearce and Robinson (2005) state that economic factors concern the nature and direction of the economy in which a firm operates. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product. A firm must therefore include these factors in its strategy formulation (Ghemawat, 1991).

Ansoff (1957) noted that the environment is constantly changing, and so it makes it imperative for organizations to continuously adapt their activities to succeed. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with the emerging environmental challenges. Some of the changes include the accelerated implementation of economic reforms, the globalization and liberalization of the economy, discontinuation of price controls, privatization and commercialization of the public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organization's in jeopardy (Aosa, 1982).

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 (Schwartz, 1996). The turbulent nature of Global and in Particular Kenya's' economic environment can be evidenced by unstable monetary policy. In Table 1.1 below, it is evident that the monetary policy variables were generally unstable in Kenya from 2001 to 2010.

**Table 1.1: Monetary policy variables**

Year	Inflation rate %	Change in domestic credit	Broad money to GDP ratio %	Treasury bill rate %	Lending rate %	Deposit rate %	Change in exchange rate %
2001	6.2	-6.11	4.37	11.01	19.49	5.7	0.72
2002	5.8	6.27	4.47	8.36	18.34	4.75	-1.94
2003	2	4.87	4.92	1.46	13.47	3.29	-1.21
2004	9.8	21.72	5.42	8.04	12.25	2.77	1.58
2005	11.6	8.09	5.74	8.07	13.16	4.52	-6.44
2006	10.3	12.12	6.22	5.73	13.74	4.11	-4.1
2007	14.5	16.26	6.82	6.87	13.32	4.32	-9.69
2008	9.8	25.68	7.63	8.59	14.78	4.89	23.99
2009	26.2	5.23	8.49	6.82	14.76	4.84	-2.35
2010	9.2	-	10.19	2.78	13.87	3.59	-

**Source:** Kenya National Bureau of Statistics statistical abstracts and Central Bank of Kenya 2010

The oil industry in Kenya has been equally affected by these changes. The Kenyan Government has been introducing new regulations from time to time in the oil industry notably, price deregulation and liberalization in 1994, introduction of Open Tender System of product supply to the introduction stringent tax regimes in 2005 by the Kenya Revenue Authority requiring upfront prepayment of taxes on oil imports and lately in December 2010, the government following pressure from public and politicians to control rising fuel prices re-introduced limited prices controls by capping the maximum fuel prices. This meant that companies can sell below but not above the maximum price generated using a set formula. This has already interfered with the market mechanisms that have been determining price and overall profitability of oil companies.

### **1.1.3: Oil Industry in Kenya**

Petroleum or crude oil is an oily, flammable liquid that occurs naturally in deposits, most often found beneath the surface of the earth. Over millions of years, plant and animal remains fall to the floor of shallow seas. As the seas recede, the plant material is covered by sediment layers, such as silt, sand, clay, and other plant material. Buried deep beneath layers of rock, the organic material partially decomposes, under an absence of oxygen, into petroleum that eventually seeps into the spaces between rock layers. Although oil has existed for many years, use of oil which has come to be the oil industry we know today began about five thousand years ago. In the Middle East, oil seeping up through the ground was used in waterproofing boats and baskets, in paints, lighting and even for medication. Whale oil has been used in more recent times as a source of light. However, the high premium for whale oil decimated whale populations and as their numbers dropped the prices rose further. The demand for oil was then far higher than the supply. Many companies and individuals were looking for an alternative and longer lasting source of what would later become known as *black gold*. Apart from a brief period of coal oil, the answer came with the development of drilling for crude oil. Land oil wells were first and as demand continued to grow exploration companies began to look below the sea bed. The first oil well structures to be built in open waters were in the Gulf of Mexico.

Kenya has for a long time remained non oil producing country largely due to low level of exploration. However recently there has been increased interest in oil exploration in Kenya largely driven by the discoveries in Sudan in the last decade and recently in Uganda. In March 2012, after exploratory drilling by Anglo-Irish firm Tullow Oil, Oil was discovered in the Kenya's north-western Turkana region. Drilling of more wells is ongoing to check the commercial viability of the oil discovery before embarking on production a process which typically takes in excess of three years. 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 in global standards but the highest in East Africa making it a Key Market in the region for Oil Products.

The domestic demand for various petroleum fuels on average stands at 2.5 million tons per year, all of it 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 1994, Kenyan government was well involved in the sector especially on controlling pricing. Mostly Multination Corporation participated with correspondingly low level of local company's involvement. 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. The Kenya Petroleum Refineries Limited which is partly owned by government and Essar of India on 50% basis supplies 50% of local oil requirements with a mandatory processing by all marketing companies basis market share. The rest is imported as fully refined through an Open Tender System OTS supervised by ministry on Energy. Kenya Pipeline Company Limited which is wholly owned by the government offers primary transported of refined products to Nairobi and western Kenya. National Oil Corporation of Kenya limited was incorporated in 1981 under the Companies Act (Cap 486) with main objective then 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 to help stabilize local oil prices.

#### **1.1.4 Oil Marketing Firms in Kenya**

In Kenya Oil Marketing firms can be classified into three categories based on market and strategy, Global Multinational Corporations, Regional Emerging Multinationals, and Local and "Independents" Oil Companies with mainly local presence. According to Energy Regulation Commission Data (2011) there are 55 licensed Oil Marketing companies in Kenya. These are companies that currently import and market product in Kenya. According Petroleum Institute of East Africa (2011), global and regional multinationals dominate the market with over 88% market share. According to Dunning (1993), a multinational corporation is "an enterprise that engages in foreign direct investments and owns or controls value adding activities in more than one country. Multinational Oil Companies in Kenya include, Total Kenya Limited and Kenya Shell. These companies operate in all sectors of oil marketing in Kenya including Supply trading, Wholesale and Retail Marketing and Export.

According to Petroleum Institute of East Africa (2011), these two Multinationals had a combined market share of 42%. The Regional Emerging Multinational Companies mainly have their business in Africa and more spread in East and Southern region. In 2011 they had

a total of about 47% market share according to Petroleum Institute of East Africa (2011). The main players in this category include Kenol/Kobil, Libya Oil, GAPCO and Engen. The other category of Oil Marketing Companies in Kenya are referred to as Locals and “Independents” Oil Companies and represented about 11% market share according to Petroleum Institute of East Africa (2011) with National Oil Corporation which is government owned representing about 5.4%.

## **1.2 Research Problem**

A business does not function in a vacuum, it has to act and react to what happens outside the factory and office walls. These factors that happen outside the business constitute firms external environment and normally affect the main internal functions of the business including the objectives of the business and its strategies. These factors depend on the complexity and dynamism of the environment. Dynamic environment is a set of complex, rapidly changing and significant interacting institutions and forces that affect the organization's ability to serve its customers or meet its objectives. It is necessary for organizations to understand the environmental conditions and strategically respond to the changes.

According to Burns and Stalker (1961), when businesses see their environment as turbulent and complex they respond to align with the environment. According to Pearce and Robinson (1991)<sup>1</sup>, strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It's thus a reaction to what is happening in the organization's environment. The petroleum industry is considered to be one of the largest and most powerful industries in the global market with its operations covering every corner of the globe and with the world's energy heavily dependent on oil and gas products (Amnesty International, 2004).

The external environment in which Oil Companies in Kenya are operating has been very dynamic. The Kenyan Government has been introducing new regulations from time to time in the oil industry notably, price deregulation and liberalization in 1994, introduction of Open Tender System of product supply, introduction stringent tax regimes in 2005 by the Kenya Revenue Authority requiring upfront prepayment of taxes on oil imports and lately in

December 2010, the government following pressure from public and politicians to control rising fuel prices re-introduced limited prices controls by capping the maximum fuel prices. This meant that companies can sell below but not above the maximum price generated using a set formula.

The prices were to be revised monthly based on cost of fuel imported for the month. This has already interfered with the market mechanisms that have been determining price and overall profitability of oil companies. The manner, in which the sector operates, coupled with an unprecedented increase in the number of independent petroleum dealers, has made it impossible for multinationals to realize impressive margins to sustain their local operations thus opting to quit and concentrate on the more lucrative upstream business (Kinuu, 2007). In the last decade alone three multinational companies have left, Mobil in 2006, BP in 2007 and Chevron in 2010. Shell which took over BP assets in Kenya, has already sold a joint stake with BP in Mombasa-based Kenya Petroleum Refineries to India multinational, Essar. In April 2010 Shell announced its intentions to leave Africa, including Kenya and its currently moving into a minority shareholding with Vittol and Hellios.

In Kenya studies on the relationship between strategic responses to the external environment have been done. Mbogo (2007) did a survey of strategic responses of firms to environmental changes in Kenya: a case of the Nairobi City Council (NCC). In his study he found that some of strategic response actions taken by NCC included restructuring and performance contracting. Sheilla (2008) studied strategic Responses by the Barclays Bank of Kenya to changes in the environment and equally picked up issues around efficiency (Cost Leadership) where the bank ended up restructuring besides changes in Technology, recapitalization product differentiation strategies. Similar strategic response actions were echoed by Karanja (2008) “Strategic Responses by Mobile Phone Companies in Kenya to Environmental Changes” and Kashero (2008) “strategic Responses to changing Environment at Lloyd Masika”.

However Odongo (2008) “Strategic Response by Kenya Tourism Development Corporation (KTDC) to change in its environment” found that for government instructions like, Political interference, poor funding and bad management were main areas the corporation needed to address. Chwelos(2001), observed that product differentiation as a strategic response

enables an organization to achieve improved performance with regards to the competition. This is because superior benefits tend to bring about an enhancement of customer loyalty and perceived quality, which a firm can exploit with respect to its resource-capability combinations to effectively attain a differentiation, based competitive advantage.

Whereas these studies focused on strategic response in dynamic environments in Kenya, there has been no prior empirical research that has explicitly investigated Oil Marketing companies' strategic response to dynamic economic environment in the Oil Industry in Kenya. The dynamic nature of oil industry in Kenya and the actions observed above raises a question; what strategic response actions should oil marketing companies apply towards this dynamic economic environment?

### **1.3 Objectives of the Study**

The study sought to establish strategic responses adopted by Oil Marketing Companies towards the dynamic economic environment in Kenya.

### **1.4 Value of the Study**

The researchers believe and looked to identify specific response strategies that fit the kind of market that of Oil Industry in Kenya. The study is therefore expected to bridge the gap on use of generic strategies and unique market specific strategic responses to dynamic economic environment of oil marketing companies in Kenya. Pearce and Robinson, ( 2005) observed that because consumption patterns are affected by the relative affluence of various markets segments, each firm must consider economic trends in the segments that affect its industry.

The researchers believe that the results of this study will add value to theory, practice and used by policy makers to maintain caution when engaging strategic responses and eradicate mixed signals which can be detrimental to oil marketing companies in Kenya if strategic responses emanated from wrong interpretation of dynamic economic environment in the country. The recently observed exit by large multinationals in Kenya following regulatory and economic changes could be considered to be as a result of this gap (Kinuu, 2007).

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The materials are drawn from several sources which are closely related to the theme and the objectives of the study. The main areas discussed are: the theory and concept of strategic Response, organization and their external environment and the strategies in facing the dynamic environment.

### **2.2 Concept of Strategic Response**

The field of strategy has largely been shaped around a framework first conceived by Kenneth R. Andrews in his classic book “The Concept of Corporate Strategy”(Richard D. Irwin, 1971). Andrew defined strategy as the match between what a company can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats). Diversity of views on the definition of strategy has evolved over the past years, ranging in terminology from policies to patterns, (Ansoff and Mc Donnell, 1990).

Significantly, the field also appears to have reached a consensus on the primary end of strategy: to attain competitive advantage in the marketplace (Montgomery and Porter 1991; Porter 1985). This end is achieved through some means, which in effect are the intended and/or realized strategic response by organizations. It’s an organization’s way of doing things, and pattern - consistency in behaviour over time, (Mintzberg, 1998). Therefore it is a reaction to what is happening in the economic environment of organizations

According to Burns and Stalker (1961), when businesses see their environment as turbulent and complex they respond to align with the environment According to Pearce and Robinson (1991), strategic response are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives. It’s thus a reaction to what is happening in the organization’s environment.

According to Porter (1997) strategic response is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The three 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 (Porter, 1997). 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).

### **2.3 Organizations and the External Environment**

As Ansoff and McDonnell (1990) argued, business firms are in a constant two way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1997). Economic factors concern the nature and direction of the economy in which a firm operates (Pearce and Robinson (2005).

A host of external factors influence a firm's choice of direction and action. These factors constitute the external environment (Pearce, and Robinson, 2005). Ansoff and McDonnell (1990), state that the environment in which organizations operate in can be either relatively stable or turbulent. Pearce and Robinson (2005) state that economic factors concern the nature and direction of the economy in which a firm operates. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product.

A firm must therefore include these factors in its strategy formulation (Ghemawat, 1991). According to Lynch (2000) market growth rate is important because markets that are growing rapidly offer more opportunities for sales than lower growth markets. Rapid growth is less likely to involve stealing share from competition and more likely to come from new buyers entering the market.

An emerging industry is typically characterized by much uncertainty over potential market size, how much time and money will be needed to surmount technological problems and what distribution channels and buyer segments to emphasize. When firms are successful in introducing new ways of marketing their products, they spark a burst of buyer interest, widen industry demand, increase product differentiation and lower unit costs—all of which can alternative the competitive position of a firm (Thompson Jr, Strickland and Gamble, 2005).

Kombo (1997) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services (Chwelos 2001). They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition.

#### **2.4 Strategies Facing Dynamic Environment**

Strategy, it turns out, is one of those words that people define in one way and often use in another, without realizing the difference (Mintzberg, 2001). The best strategies see continuously scan the environment and respond the changes in time to counter any affect on companies competitive edge. Organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Ansoff and McDonnell (1990) noted that strategic response involve changes in the firm's strategic behaviors to assure success in transforming future environment.

Strategic response can be at three levels, Corporate, Business and Functional. Corporate-level strategic response is for market definition, business-level strategic responses for market navigation, and functional-level strategic responses that support the other two strategic responses. Corporate-level strategic responses address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate.

Decisions of about whether to vertically integrate, form strategic alliances, diversify or enter into mergers and acquisitions is part of corporate level strategic responses, (Barney J.B; Hesterly W.S, 2008). Internal diversification can take place in distinct ways. One of these is to market existing products in new markets. In the case of oil firms, may elect to broaden its geographic base to include new customers, either within its home country or in international markets. The oil firms could also pursue an internal diversification strategy by finding new users for its current product. Finally, oil firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels. In external diversification firms can look outside their current operations and therefore buy access to new products or markets. Mergers are one common form of external diversification. They occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms (Pearce, and Robinson, 2007).

The second form of external growth is acquisition; it occurs when the purchased corporation loses its identity and is thus absorbed by the acquiring firm. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. In most cases of acquisitions larger firms purchase smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased (Pearce, and Robinson, 2007).

According to Pearce and Robinson (2007) vertical integration occurs when firms undertake operations at different stages of production. Involvement in the different stages of production can be developed inside the company or by acquiring another firm. Horizontal integration or diversification involves the firm moving into operations at the same stage of production. Vertical integration is usually related to existing operations and would be considered concentric diversification. Horizontal integration can be either a concentric or a conglomerate form of diversification (Hungler and Wheelen, 2007). Backward integration allows the diversifying firm to exercise more control over the quality of the supplies.



Backward integration also may be undertaken to provide a more dependable source of needed raw materials. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and serviced. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and servicing its equipment (Hungler and Wheelen, 2007). Strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997).

While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm's competitive position in many industries. Competitors can serve a variety of strategic purposes that increase a firm's sustainable competitive advantage and improve the structure of its industry (Porter, 1985). According to Wheelen and Hunger (2004), companies form strategic alliances to obtain technology and manufacturing capabilities, obtain access to specific markets, reduce financial and political risk and achieve or ensure competitive advantage.

When outlining the idea of generic strategies, Porter (1985) holds that cost leadership and differentiation signify two fundamentally different approaches to achieve competitive advantage. Basically, strategy is about two things: deciding where you want your business to go, and deciding how to get there. It is about having a competitive edge. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. This presents two types of strategic responses: cost leadership and differentiation. Cost leadership deals with firm's ability to manage its cost below competition resulting in better bottom-line result whereas differentiation strategy involves firm's ability to present its product in more superior way than its competitors either through extra value added or superior quality.

The figure 1.2 below defines the choices of "generic strategy" a firm can follow. A firm's relative position within an industry is given by its choice of cost leadership vs. differentiation strategies and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. There are different risks inherent in each generic strategy, but being "all things to all people" is a sure recipe for mediocrity - getting "stuck in the middle" (Porter, 1985).

**Table 1.2:Porter's Generic Strategies**

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

**Source:** Porter, 1985, p.12

Treacy and Wiersema (1995) offer another popular generic framework for gaining competitive advantage. In their framework, a firm typically will choose to emphasize one of three "value disciplines": product leadership, operational excellence, and customer intimacy. Operational Excellence - "best price with least inconvenience". These companies don't focus on delivering the best possible product, or having the closest relationship with their customers. They win by being very efficient at delivering standard products at the best price. Product Leadership - "innovation that delivers the best products". These companies win by delivering new products with new features. Customer Intimacy - "deep customer relationships for customized results". These companies win by understanding their customers deeply and delivering exactly what they need often in a customized way.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the methodology components of the study, that is, research design, target population and sample selection, research instruments and data analysis. Consequently, the study was conducted in an objective, systematic manner of gathering information so as to attain the objectives.

### **3.2 Research Design**

The research design for this study was a cross-sectional survey. In this type of research study, either the entire population or a subset thereof is selected, and from these individuals, data are collected to help answer the research question. The method is cross-sectional because the information that is gathered represents what is going on at only one point in time. The main reason for this choice is that in general it is quick and cheap as there is no follow up hence less resource required to run the study. The method was therefore an efficient way to obtain information needed to describe opinions and views of oil companies' Chief Executive Officers (CEO's) on the use and impact of strategic response actions of their companies in dynamic economic environment oil marketing companies in Kenya.

### **3.3 Population of the Study**

The target population of this study was 55 oil marketing companies in Kenya, classified in three levels namely Global Multinationals, Regional Emerging Multinationals and Local and "Independents" Oil Companies in Kenya. The main reason for this choice is because the entire population is sufficiently small with only 55 companies. The census method was used and provided an advantage in that it helped obtain data from each of the companies which then provided greater accuracy and reliability.

### **3.3.1 Target population**

The study will involve 2 global multination, 17 Regional emerging multination and 36 local and independents, summing target population to 55.

### **3.4 Data Collection**

The study was a survey where data was collected from the oil marketing companies using a questionnaire. Self-administered drop and pick questionnaires were distributed to Chief Executive Officers (CEOs) or their Equivalent currently working for oil marketing companies in Kenya. The respondents were CEOs or their equivalents in these companies. These are persons directly dealing with the response strategies to dynamic economic environment of the oil marketing companies.

In order to maximize the response of the respondents, the researcher made personal visits to the respondents' place of work where he requested the respondents to participate by responding to the questionnaires. Where the respondents were unable to complete the questionnaires on the spot, the researcher left them for a period of one week for the respondents to fill them at their convenience.

The questionnaires were divided into two parts. The first part sought information on the company background that relates to ownership and strategy. This was to enable the researcher know the nature and type of the oil company, while the second was on the oil industry strategic responses in facing the dynamic economic environment. Secondary data sources were employed through the use of information available in companies' website and published financial reports or materials to supplement the data received from questionnaires and information from interviews.

### **3.5 Data Analysis**

Data analysis doesn't occur in a vacuum. Scientific inquiry is a matter of both observing and reasoning.' Data collected was first edited for accuracy, consistency, and completeness. Then, it was arranged to simplify coding and tabulation. Statistical package for social sciences (SPSS) package was then be used to generate means and standard deviations.

SPSS makes data analysis quicker because the program knows the location of the cases and variables, it is specifically made for analyzing statistical data and thus it offers a great range of methods, graphs and charts and also comes with more techniques of screening or cleaning the information in preparation for further analysis.

Descriptive statistics were used to analyze the data collected. These included the use of tables and percentages. Finally, the frequency of each identifiable factor in the transcripts was tabulated. This informed the researcher as to the perceived importance of the identifiable factor across the respondents.

### **3.6 Pilot Study**

The researcher opted to undertake a pilot study before embarking on the main study. This is a smaller version or 'practice run' of the main study. Doing so helped identify practical obstacles or problems with the research design. It also helped test the efficacy of the research in order to establish the validity, reliability and timeframe of the actual research. The researcher tested for face validity by giving experts to go through the proposal. The researcher carried out a pilot study of the research at the

Kenya Shell a month before the project by giving out four questionnaires, which were filled by respondents. Analysis of the responses was not included in the actual study but one of the key findings during pilot study was that of the sensitive nature of the study. The study focused on strategic response which is very sensitive to most organizations. In fact the research found out that giving out of some information like market share specific to organization or sales data was prohibited by company procedures. As such the researcher opted to omit asking respondents to state the market share of their companies as was envisaged by question 10 of the questionnaire

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS**

### **4.1 Introduction**

This chapter presents the results and findings of the study on the research questions with regards to the data collected from the respondents in oil industries in Kenya. The initial section covers the background information with respect to the respondent as well as the company background that relates to ownership and strategy. This was to enable the researcher to know the nature and type of the oil company, while the second will be on the oil industry strategic responses in facing the dynamic economic environment. The target population was fifty five (55) oil companies in Kenya.

### **4.2 Background Information**

This section offers the background information with regards to the respondents' gender, level of education as well as the experience in the oil industry. This was put into consideration because of the meaningful contribution it offers to the study as the variables help to provide the logic behind the responses issued by the respective respondents.

#### **4.2.1 Gender of the Respondents**

Table 4.1 provides a summary of the gender of the respondents as a result of the responses given by the respondents. As clearly indicated in the table, the female respondents were the minority whereas the male respondents were the majority. The findings show that 35 percent were female while 65 percent were male.

**Table 4.1: Gender**

<b>Gender</b>		<b>Distribution</b>	
		<b>Frequency</b>	<b>Percent</b>
	Male	36	65
	Female	19	35
	<b>Total</b>	<b>55</b>	<b>100.0</b>

#### **4.2.2 Level of Education**

The study sought to establish the level of education of the respective respondents in the organizations of study. Table 4.2 provides a summary of the level of education of the respondents.

**Table 4.2: Level of Education**

<b>Level of Education</b>		<b>Distribution</b>	
		<b>Frequency</b>	<b>Percent</b>
	Diploma	1	2
	Bachelors	25	45
	Master's	25	45
	Doctorate	3	6
	Other	1	2
	<b>Total</b>	<b>55</b>	<b>100.0</b>

According to the study most of the respondents had high level of education qualification. Specifically 45 percent had bachelor's degree qualification, and Master's degree qualifications respectively. Only 2 percent of the respondents were diploma holders while 6 percent of the respondents had doctoral degrees. The remaining 2 percent of the respondents had other qualifications. This broad category of respondents included certificate holders including computer studies, industrial training, accountancy holders, just to name but a few.

The high level of education among the respondents is a clear indication of that most of the respondents are well aware of the economic dynamics and therefore well versed with the various strategies in such a scenario. Specifically this meant that even in cases where senior management delegated the role of respondents; the data provided was well articulated and reflected a strategic view of the organisation under study.

#### 4.2.3 Number of Years in the Oil Industry

In order to establish the experience of the respondents in the oil industry, the respondents were asked to state how long they have been working in the industry. Table 4.3 provides a summary of the findings in this regard.

**Table 4.3: Number of Years in the Oil Industry**

No. of Years in the Oil Industry		Distribution	
		Frequency	Percent
	Less than 2	2	4
	3-5	15	27
	6-9	26	47
	10 years and Above	12	22
	<b>Total</b>	<b>55</b>	<b>100.0</b>

Whereas 4 percent of the respondents have been in the oil industry for less than 2 years, the majority of the respondents have been in the oil industry more than 3 years. Specifically, 27 percent of the respondents have 3-5 years experience, while 47 percent of the respondents have 6-9 years of experience. Also 22 percent of the respondents have 10 years and above in terms of experience in the oil industry. Given many years of respondents' experience in the oil industry, as such they were equipped with the knowledge of the market dynamics in Kenya.

It is worth noting that most of the respondents with 47 percent were between 6-9 years in the company which indicates the dynamism of the sector. Since the respondents were at the



epitome of decision making in their respective organizations, this could have an impact on the strategic response of the oil companies. Their views are therefore well supported and provide a correct view of the strategic response in dynamic economic environment of oil marketing companies in Kenya.

#### 4.2.4 Position in the Company

In order to establish the strategic response of oil companies in a dynamic economic environment in Kenya, the study sought responses from top managers in these organizations. Table 4.4 provides a summary of the study findings with regards to the respondents' position in their respective organizations.

**Table 4.4: Position in the Company**

Position in the Company		Distribution	
		Frequency	Percent
	Board of Directors	0	0
	Top Management	50	91
	Line/Section Manager	5	9
	Other	0	0
	<b>Total</b>	<b>55</b>	<b>100.0</b>

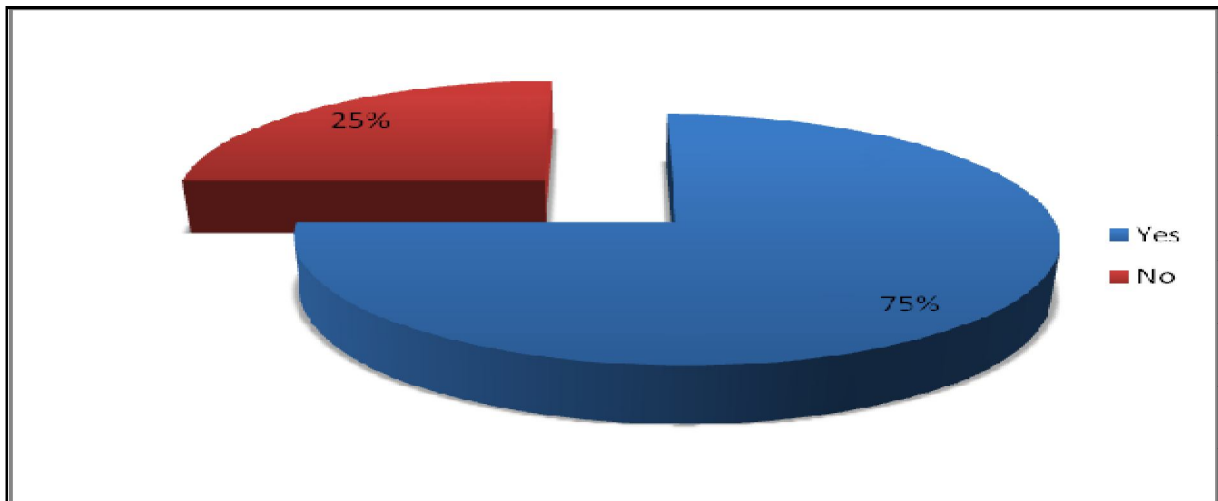
Whereas 91 percent of the respondents were in the top management only 9 percent of the respondents were wither line or section managers in their respective organizations but who had delegated authority. In fact these line managers were directly involved in implementation of the strategic responses in their departments and stood a good chance of giving appropriate and timely response on changes in the market. None of the respondents were from the remaining categories.

The study findings show that indeed, over 91 percent of the respondents were directly involved in the strategic decision making by these organizations and therefore likely to provide first hand information as far as the strategic response to the dynamic economic environment is concerned. This help support the data provided as a clear picture of how oil marketing companies in Kenya respond to the dynamic economic environment by

formulating and implementing strategies that react to environmental changes and specifically economic changes

#### 4.2.5 Company Having Branches all over Kenya

Figure 4.1 provides the respondents view with regards to their knowledge on whether their respective companies had branches all over Kenya.

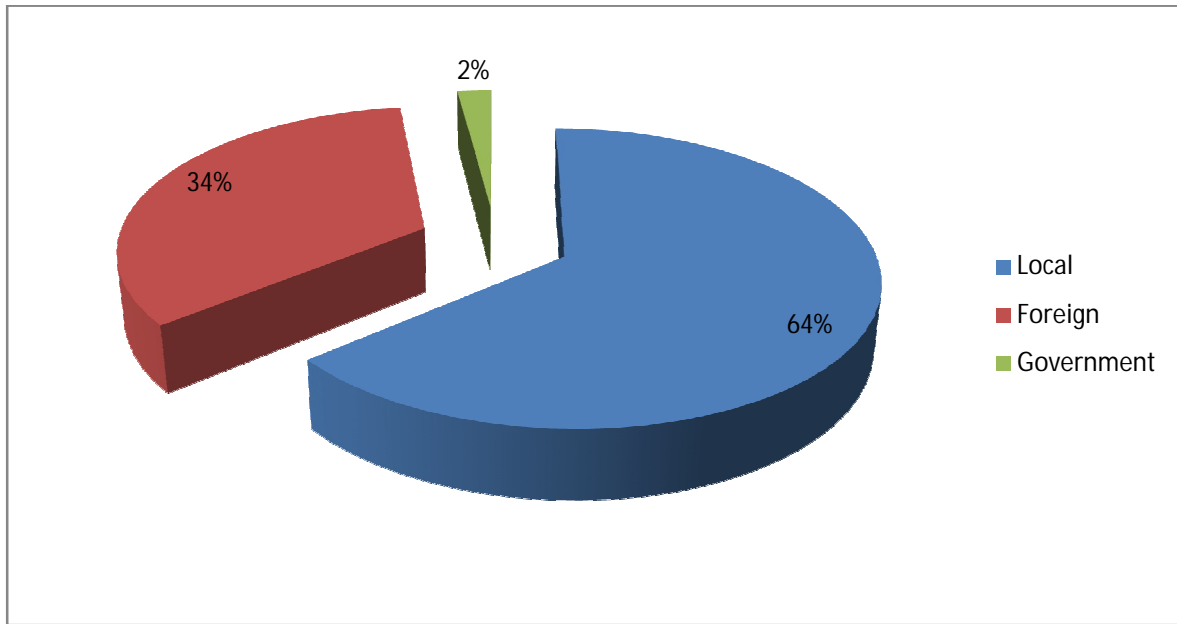


**Figure 4.1: Company Having Branches all over Kenya**

As seen in the figure, majority of the respondents said that they were aware of their companies having branches all over Kenya. The results indeed indicate that most oil marketing companies in Kenya have a wide branch network in the country. This in effect had an impact in strategic response by these companies as would be country wide.

#### 4.2.6 Company Ownership

The ownership of the company is likely to have an impact on the strategic response of the oil marketing company. This is because companies will apply different strategic response based on management structure and ownership. Example is where companies with foreign ownership are likely to apply a different strategic response as compared to locally owned company due to the global nature of decision making. This is also the case with government owned oil marketing companies. Figure 4.2 presents a summary of the study findings on the company ownership as given by the respondents.

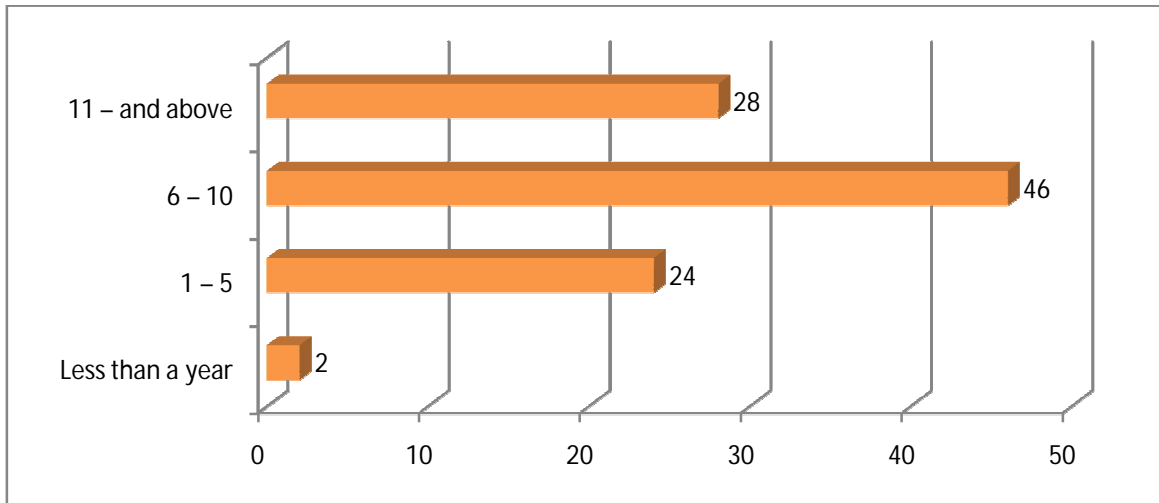


**Figure 4.2: Company Ownership**

Majority of the oil marketing companies are locally owned, specifically 34 percent of the oil marketing companies are owned by foreigners the remaining 66 percent of the oil companies are owned locally as well as by the government respectively. There is minimal (only one company) ownership by government representing only 2 percent. This indicates that most of the oil marketing company ownership is in private capital in Kenya with very minimal government ownership which could be an indicator of restricted government control over the industry.

#### **4.2.7 Years of Operation of the company in Kenya**

Years of operation of the company in Kenya was considered as a key variable in the strategic response to a dynamic economic environment. This is because oil companies who have been operating in Kenya for longer periods are well versed with the market dynamics in Kenya and therefore the way they respond to the dynamic economic environment will be influenced by their experience in the country. The respondents' responses in terms of years of operation of the company in Kenya are summarized in Figure 4.3.



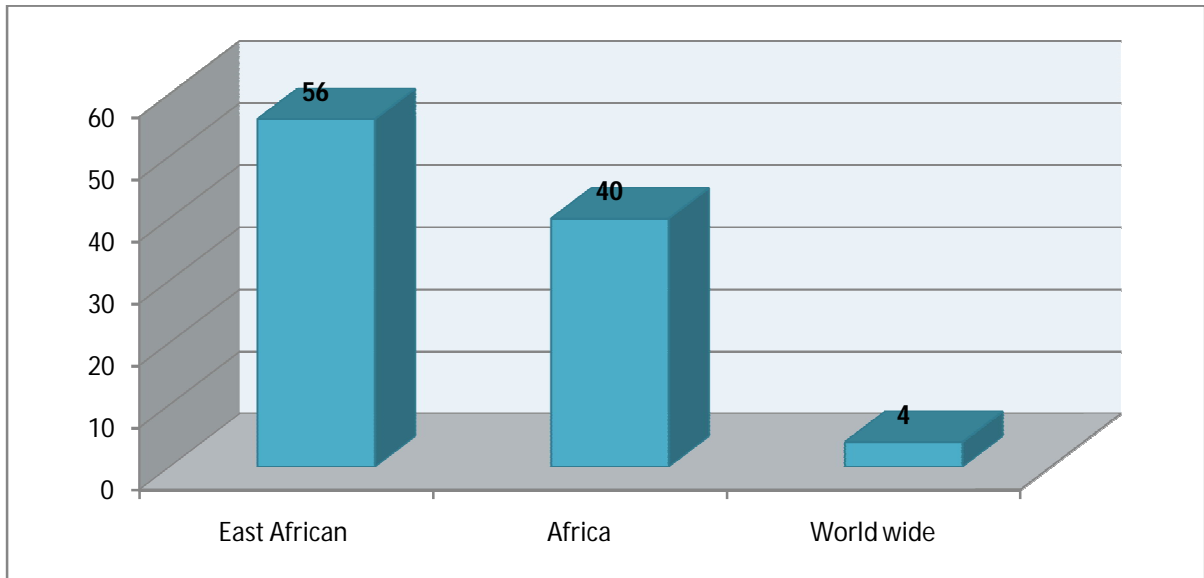
**Figure 4.3: Years of Operation of the company in Kenya**

As seen in the figure 46 percent of the oil marketing companies have been in the country between 6-10 years whereas 28 percent of the oil marketing companies have been in the country 11 years and above. Consequently 24 percent of the oil companies have been operating in Kenya between 1-5 years as the remaining 2 percent have only operated less than a year. Over 70 percent of oil marketing companies have entered Kenyan Market in the last decade mainly driven by oil industry liberalization in late 90s.

#### **4.2.8 Scope of Oil Marketing Companies Operation**

One of the fundamental aspects which the study sought to examine is the strategies adopted by oil marketing companies in dynamic economic environment. One of the key drivers of strategy employed by oil companies is the scope of operations. Companies with wider scope in terms of market and region will tend to apply a different strategy from those with narrow and probably local market representation only. The relations between the scope and strategy employed, is clarified in this section.

Figure 4.4 provides the summary in terms of the scope of oil marketing companies operation. As seen in the figure majority of the oil marketing companies in Kenya operate in Africa. Only 4 percent of the oil marketing companies in Kenya operate on a global scale.

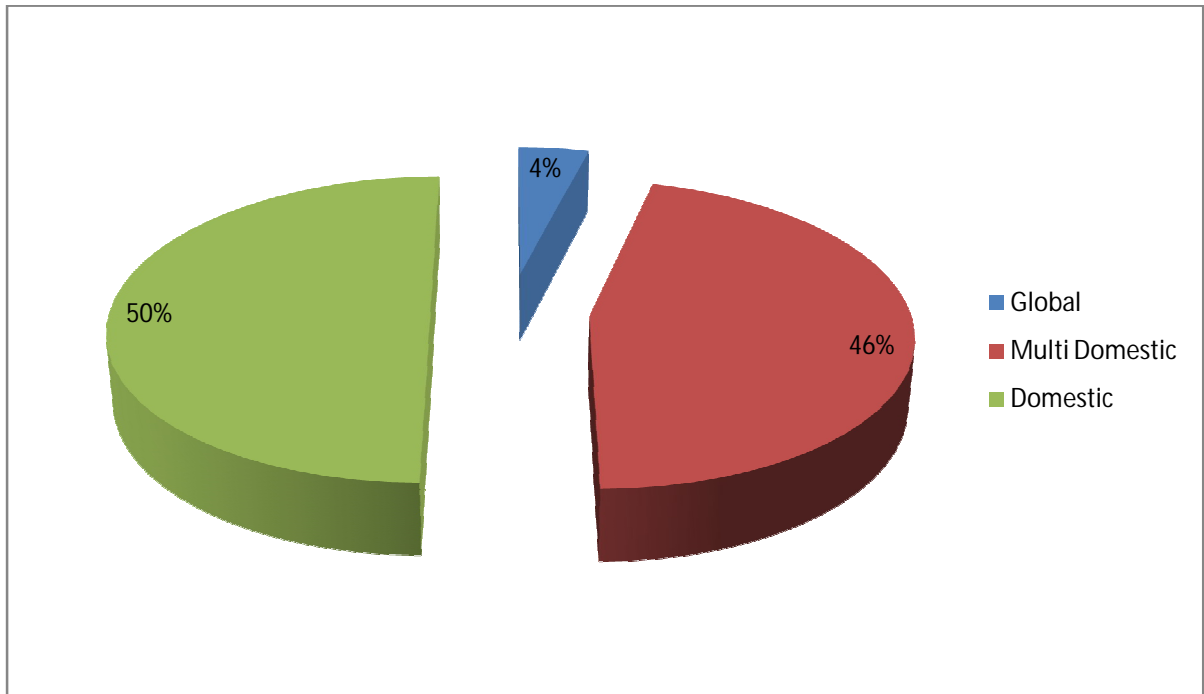


**Figure 4.4: Scope of Oil Marketing Companies Operation**

#### **4.2.9 Strategies adopted by Oil Marketing Companies**

The scope of oil marketing companies operation is likely to determine the choice of strategy adopted by a respective oil marketing company. As such, companies operating globally will tend to adapt global strategies in their local businesses; consequently those operating on a regional scale will apply Multi-Domestic Strategies in countries where they operate, while the local oil marketing companies will adopt domestic strategies.

Figure 4.5 provides a summary of the strategies used by oil marketing companies in relation to their scope of operation. As seen in the figure, majority of the oil companies applied domestic strategies and multi-domestic strategies respectively. Specifically 50 percent of the respondents believe that their respective oil companies apply domestic strategies while 46 percent of the oil companies apply multi-domestic strategies. Only 4 percent of the oil companies in Kenya apply global strategies. These findings reveal that indeed the strategies adopted by the respective oil companies are greatly influenced by the scope of operation.

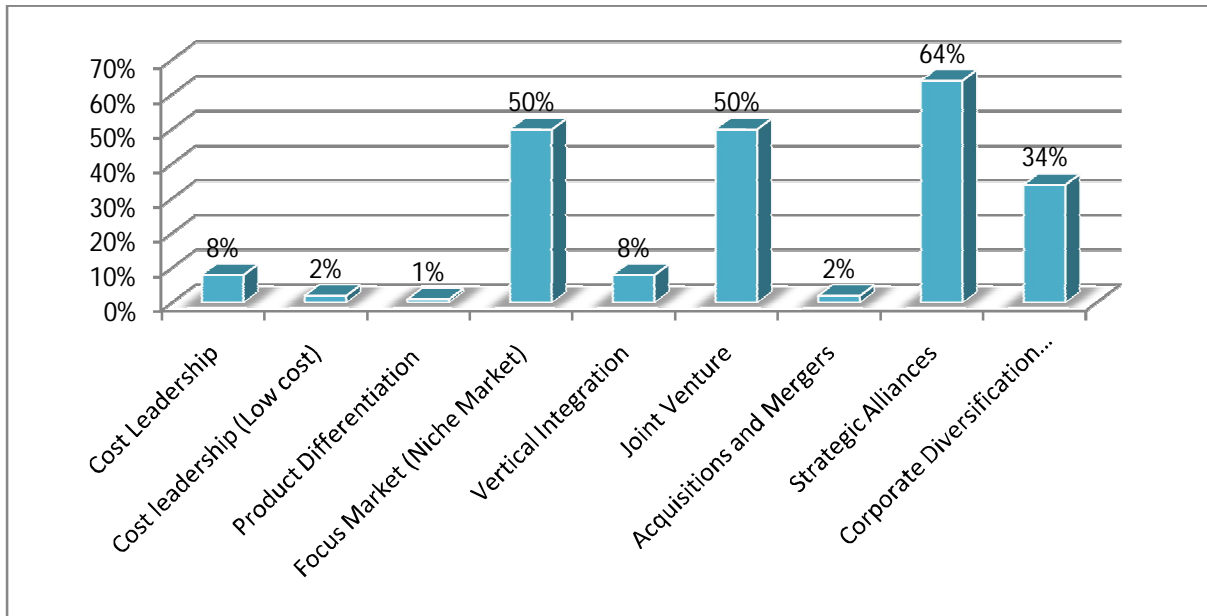


**Figure 4.5: Strategy Employed by Oil Marketing Companies in Kenya**

#### **4.3 Strategic Response pursued by Oil Marketing Companies in Kenya**

The study sought to establish the strategic response to dynamic economic environment as seen in different oil companies. To understand the various strategic response by oil companies in Kenya, a number of strategic responses were formulated as per questionnaires and respondents asked to rate them as applied by oil companies which they worked for. The following sub-sections provide a summary of the study findings in this regard.

In the first section respondents were presented with all the 9 strategies as listed in the questionnaire and asked to rate their application by the oil marketing company that they worked for. Then the respondents were asked to rate application of each of the strategic responses to the extent to which it was applied by the oil marketing company they worked for. Figure 4.5 shows the respondents views with regards to the various strategic responses pursued by oil companies in a dynamic economic environment.

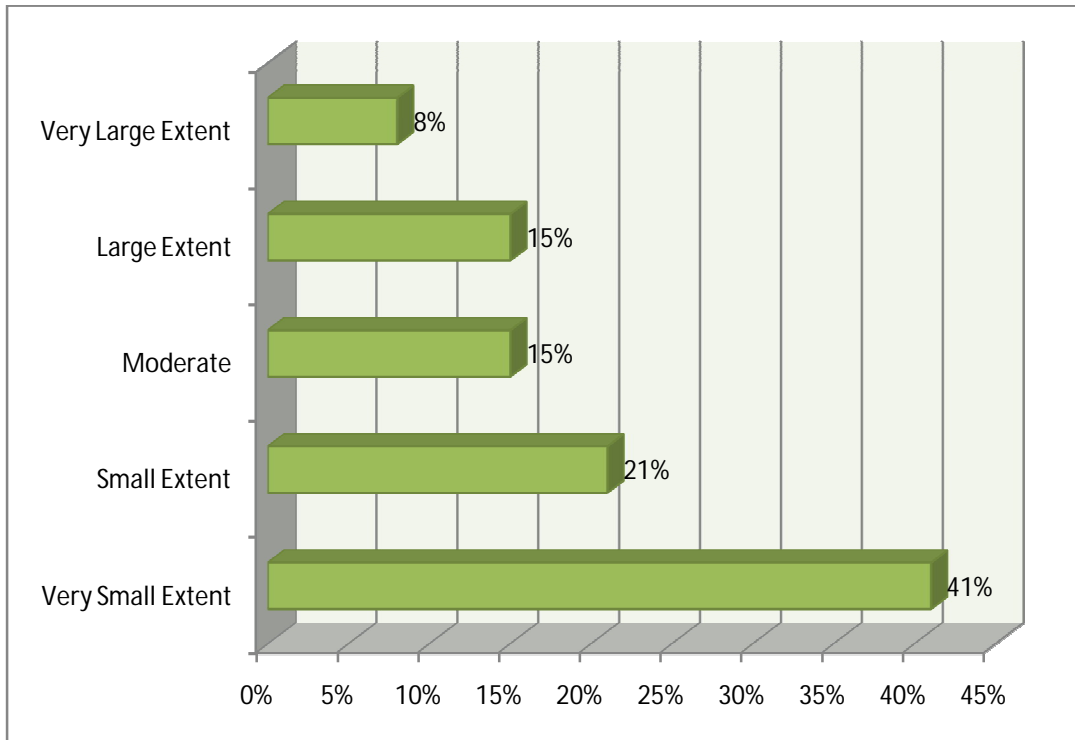


**Figure 4.6: Strategic Responses Pursued by Oil Companies**

As seen in the figure, focus market (50 Percent), joint ventures (50 percent), strategic alliances (64 percent) as well as corporate diversification (34 percent) stood out as the popular strategies used by oil marketing companies in a dynamic economic environment. The other strategies although used by the oil marketing companies, they are not very popular. In light of these finding the study sought to narrow down on the each specific strategy and how it is applied in a dynamic environment.

#### **4.3.1: Cost Leadership**

Cost leadership is a key strategic response in a dynamic economic environment with companies that effectively manage cost having advantage over their competitors in that they can still sell their products at same price as competitors and still have better returns. The views were based on respondents understanding of how well this was applied in the oil marketing company they worked for and not necessary its impact. Figure 4.6 provides a summary of the study findings with regards to the respondents view on the extent of cost leadership in their specific organizations.



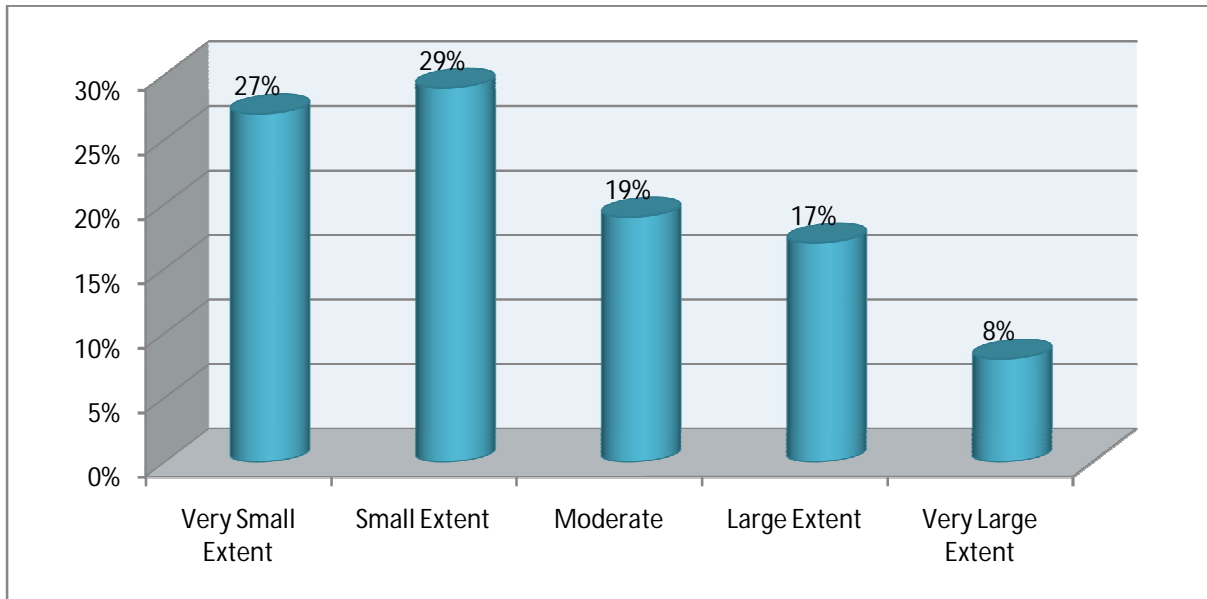
**Figure 4.7: Cost Leadership**

Respondents view cost leadership as being used to a very low extent in a dynamic environment. Specifically 41 percent of the respondents went for small extent, 21 percent of the respondents believe it is used to a small extent while 15 percent of the respondents moderately rate cost leadership. Consequently the remaining 23 percent believe that cost leadership as a strategy is used to a large extent. These results indeed show that, cost leadership as a strategy is not highly rated, among oil companies in a dynamic economic environment.

#### **4.3.2 Product Differentiation**

Product differentiation is another key strategy used by companies in dynamic economic environment. The question focused on getting respondents view of the extent to which differentiation as a strategic response was applied by the company they worked for. Figure 4.7 provides a summary of the study findings with regards to the respondents view on the extent of product differentiation in their specific organizations.



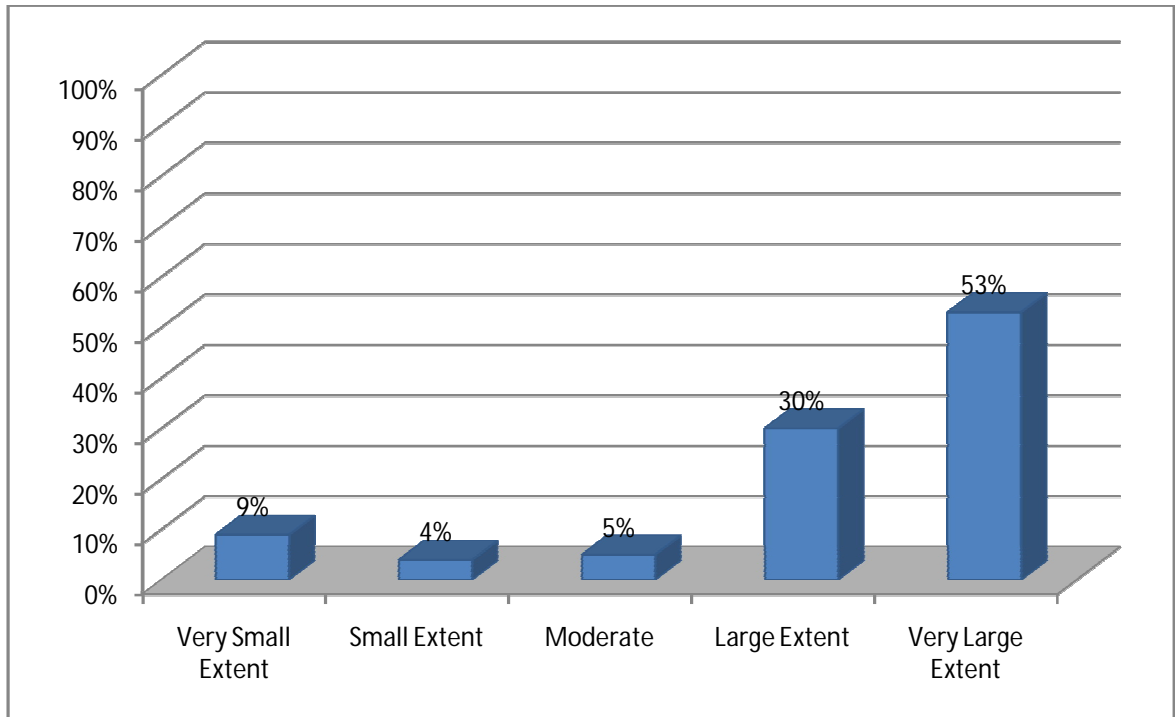


**Figure 4.8: Product Differentiation**

Respondents view product differentiation as being used to a very low extent in a dynamic environment. Specifically 27 percent of the respondents went for small extent, 29 percent of the respondents believe it is used to a small extent while 19 percent of the respondents moderately rate product differentiation. Consequently the remaining 25 percent believe that product differentiation as a strategy is used to a large extent. These results indeed show that, product differentiation as a strategy is not highly rated, among oil companies in a dynamic economic environment.

#### **4.3.3 Focus Market**

Companies use focus market as a strategic response in dynamic economic environment as a way of getting the best value in the market segment that they have strength. This could be geographical or demographical. Example is where some companies may chose to market their products in different areas of the country or target specific population in the country. Figure 4.8 provides a summary of the study findings with regards to the respondents view on the extent of focus market in their specific organizations.

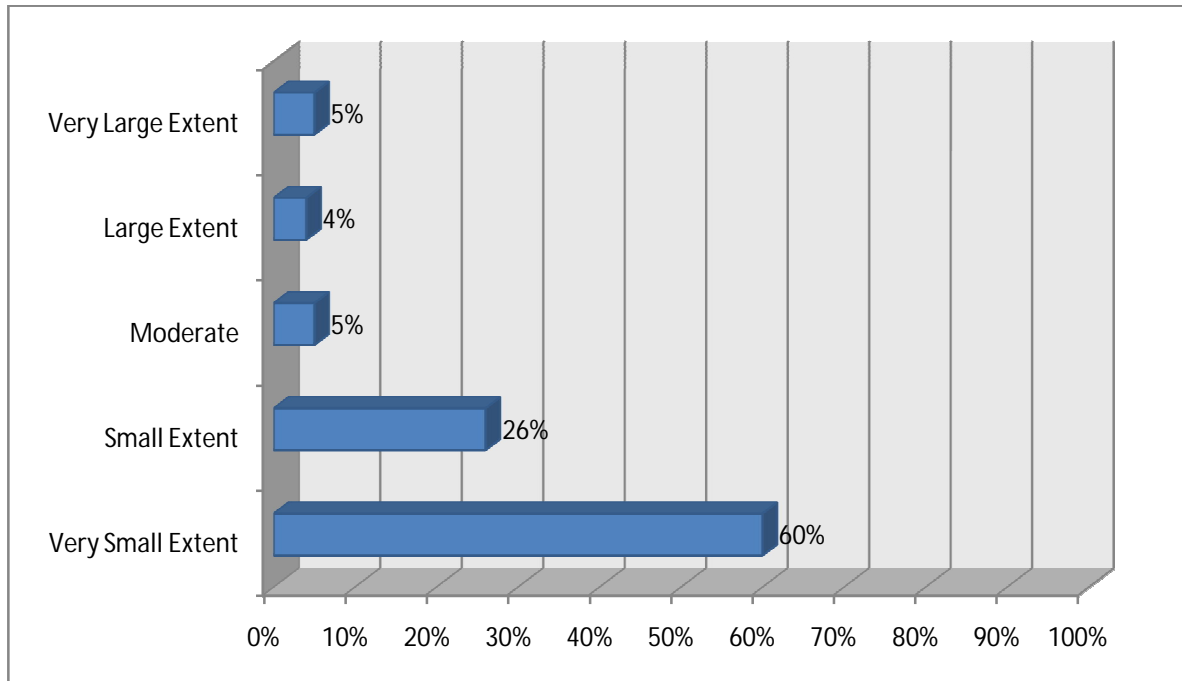


**Figure 4.9: Focus Market**

The results of the study show clearly that the majority of the respondents believe that focus market strategy is used to a high extent by oil marketing companies. The figure shows that 53 percent of the respondents believe it is used to a very large extent, 30 percent to a large extent, while 5 percent moderately. On the other hand only 9 percent of the respondents believe that focus market is used to a small extent.

#### **4.3.4 Vertical Integration**

Vertical integration is used by companies as a strategic response to extra value from the supply chain. Some oil companies may opt to handle the distribution of fuels, run the service stations and supply of fuels. This would be done with expectation of maximizing on both the financial value and operations excellence in the whole process. The respondents were asked to indicate the extent to which vertical integration as a strategic response was applied in the company they worked for. Figure 4.9 provides a summary of the study findings with regards to the respondents view on the extent of vertical integration in their specific organizations.

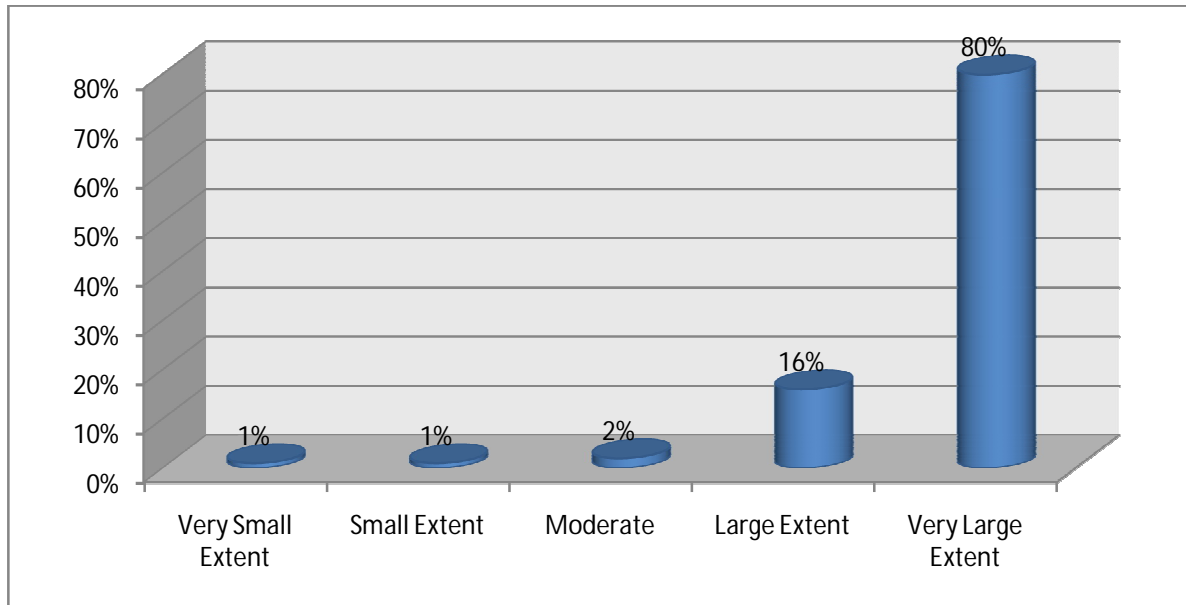


**Figure 4.10: Vertical Integration**

The results of the study show clearly that the majority of the respondents believe that vertical integration as a strategy is used to a low extent by oil marketing companies. The figure shows that 60 percent of the respondents believe it is used to a very low extent, 26 percent to a low extent, while 5 percent moderately. On the other hand only 9 percent of the respondents believe that focus market is used to a large extent.

#### **4.3.5 Joint Venture**

Companies go into joint ventures to either gain easy market access, product penetration of access operational capacity. In most cases most companies target to bridge a competence gap while saving on cost in entry or construction and operations. Figure 4.10 provides a summary of the study findings with regards to the respondents view on the extent of joint venture in their specific organizations.

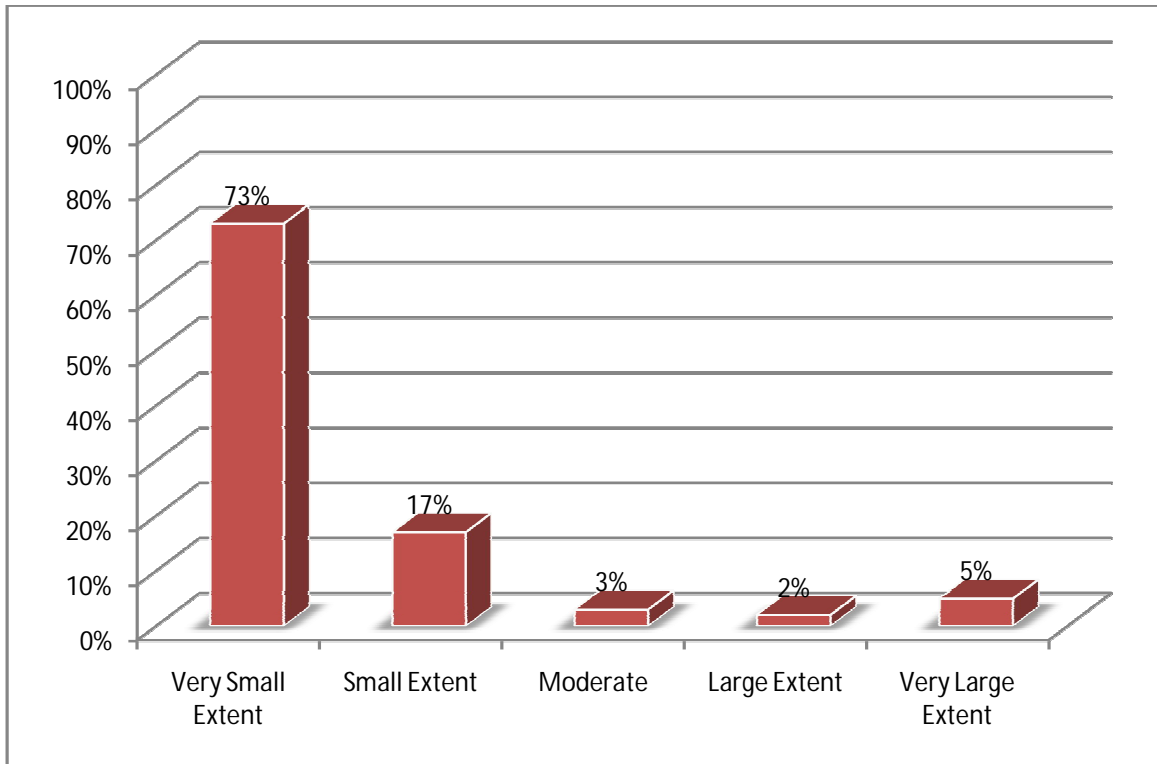


**Figure 4.11: Joint Venture**

The results of the study show clearly that the majority of the respondents believe that joint venture strategy is used to a high extent by oil marketing companies. The figure shows that 80 percent of the respondents believe it is used to a very large extent, 16 percent to a large extent, while 2 percent moderately. On the other hand only 2 percent of the respondents believe that focus market is used to a small extent.

#### **4.3.6 Acquisitions and Mergers**

Common ways to expand your business include making a strategic acquisition or merging with another business. An acquisition is when you buy another business and end up controlling it whereas a merger is when you integrate your business with another and share control of the combined businesses with the other owner(s). Most companies would use this strategy to get into new markets as it does not have to start from scratch. The respondents were asked to rate the extent to which the companies they worked for used acquisitions and mergers as a strategic response to dynamic economic environment. Figure 4.11 provides a summary of the study findings with regards to the respondents view on the extent of acquisitions and mergers in their specific organizations.

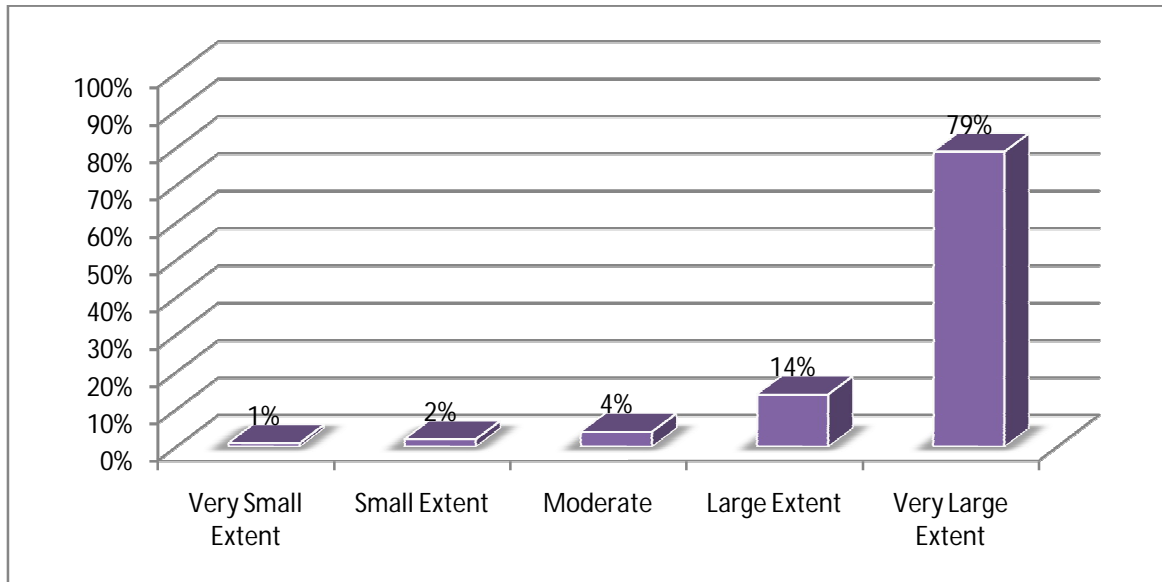


**Figure 4.12: Acquisitions and Mergers**

The results of the study show clearly that the majority of the respondents believe that focus market strategy is used to a low extent by oil marketing companies. The figure shows that 73 percent of the respondents believe it is used to a very low extent, 17 percent to a low extent, while 3 percent moderately. On the other hand only 7 percent of the respondents believe that focus market is used to a large extent.

#### **4.3.7 Strategic Alliances**

Strategic alliances is one of the strategic response used in dynamic economic environment by firms primarily to speed up entry to market, tap of organizational expertise, reduce cost and gain access to more regional and global markets. In this question strategic alliances were also expanded to cover for those under franchised deals. Figure 4.12 provides a summary of the study findings with regards to the respondents view on the extent of strategic alliances in their specific organizations.

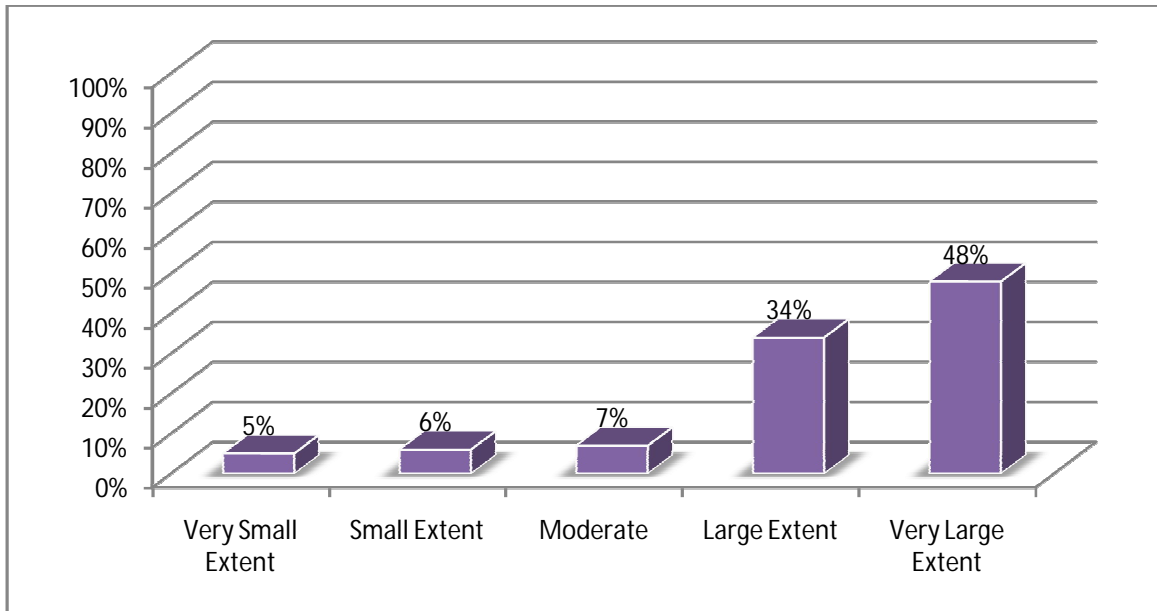


**Figure 4.13: Strategic Alliances**

The results of the study show clearly that the majority of the respondents believe that strategic alliances strategy is used to a high extent by oil marketing companies. The figure shows that 79 percent of the respondents believe it is used to a very large extent, 14 percent to a large extent, while 4 percent moderately. On the other hand only 3 percent of the respondents believe that focus market is used to a small extent.

#### **4.3.8 Corporate Diversification**

Corporate diversification in its broadest sense can be defined simply as the entering into a new business activity by an existing business entity. This definition is expounded upon by many of the leading corporate diversification researchers to include references to the method of entering the new business (whether it be through acquisition, internal development, etc.), the driving forces behind the diversification (i.e., synergy, resource sharing, risk reduction), and the levels of relatedness between the company's present product line and market to that of the new businesses' products and markets (Michael A. and Brian H. 1995). Figure 4.13 provides a summary of the study findings with regards to the respondents view on the extent of corporate diversification in their specific organizations.

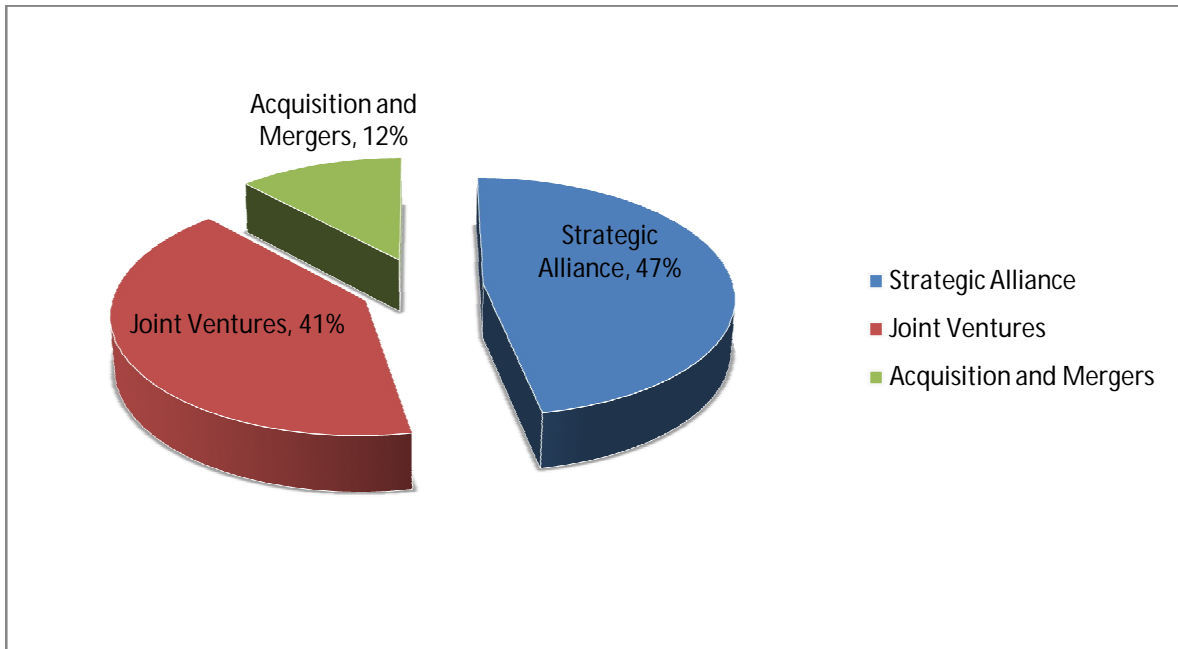


**Figure 4.14: Corporate Diversification**

The results of the study show clearly that the majority of the respondents believe that corporate diversification strategy is used to a high extent by oil marketing companies. The figure shows that 48 percent of the respondents believe it is used to a very large extent, 34 percent to a large extent, while 7 percent moderately. On the other hand only 11 percent of the respondents believe that focus market is used to a small extent.

#### **4.4 Suitable Strategy for the Kenyan Oil Market**

The next section, the researcher aimed at seeking to know what strategic responses respondents thought were best suited for the dynamic economic environment of the oil marketing companies in Kenya. Respondents made their choices from the listed strategies rated them to the extent they felt they were suited on both application and impact. Respondents were not limited to how many they choose nor were they asked to rate all the strategies but were asked to pick what they thought were suitable. The data was summarized based on number of respondents per strategy chosen with one with majority ranking the highest and vice versa. Figure 4.14 shows the respondents view with regards to the suitability of the three strategies in the Kenyan market.



**Figure 4.15: Suitable Strategies for the Oil Market in Kenya**

The results of the study show that the respondents view Strategic Alliance strategy as being the most suitable for the Kenyan oil industry. The figure clearly indicates that 47 percent of the respondents viewed strategic alliances as the most suitable strategy for the Kenyan market while 41 percent of the respondents viewed joint ventures as being the suitable strategy. On the other hand 12 percent of the respondents viewed acquisition and mergers strategy as the best suitable for the oil industry in Kenya.

Common to all these strategies is that have an element of alliance of jointly working together among competing companies. They are all used to tap on various synergies among the alliance partners in market entry, competence and knowledge acquisition or cost reduction. It is worth noting that whereas joint ventures and strategic alliances scored highly when respondents were asked to rate strategies used by the companies in responding to dynamic economic environment, acquisition and mergers was rated very low (2 percent) among respondents. Respondents therefore view acquisition and mergers as a key strategic response suitable for use by oil marketing companies in Kenya and as such need to further understand what impact it has.



#### **4.5 Impact of Strategies adopted in the Dynamic Economic Environment**

After seeking to understand strategies applied by oil marketing companies and what respondents thought were the best strategic response to dynamic economic environment of oil marketing companies in Kenya, the next section sought to analyze the impact of the various strategic options that are adopted in a dynamic economic environment by the oil marketing companies in Kenya. The following subsection provides the results of the findings with regards to this aspect.

##### **4.5.1 Cost leadership strategy**

Table 4.5 provides a summary of the respondents view on the contribution of the Low cost leadership strategy to the dynamic environment of the oil market in Kenya.

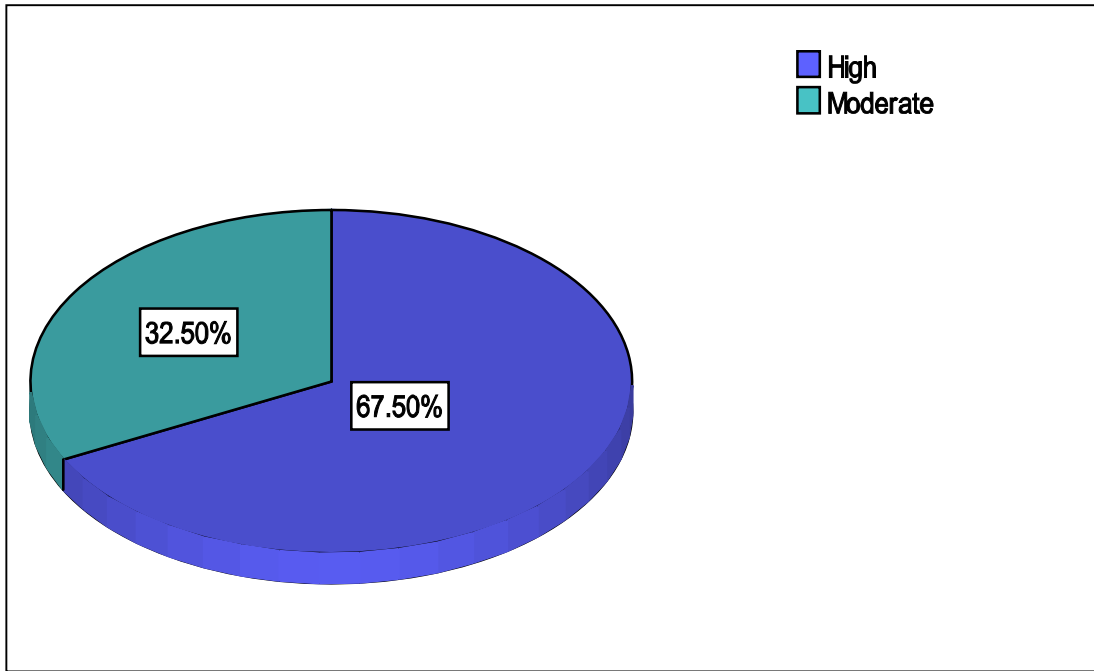
**Table 4.5 Cost Leadership**

<b>Low Cost Leadership</b>		<b>Distribution</b>	
		<b>Frequency</b>	<b>Percent</b>
	<b>High</b>	25	45.0
	<b>Moderate</b>	21	39.0
	<b>Low</b>	8	15.0
	<b>Never</b>	1	1.0
	<b>Total</b>	<b>55</b>	<b>100.00</b>

The results of the study show clearly that the majority of the respondents believe that low cost leadership contributes highly as a strategic response in dynamic economic environment in the oil industry in Kenya with 45 percent whereas 39 percent of the respondents view it as contributing moderately, while 15 percent view it to have a low contribution. Only 1 percent of the respondents said that cost leadership has no impact as a strategic response to dynamic economic environment of the Kenyan oil industry.

### 4.5.2 Product Differentiation

Figure 4.15 shows the respondent's view on the contribution of the differentiation strategy dynamic economic environment of marketing oil companies in Kenya.

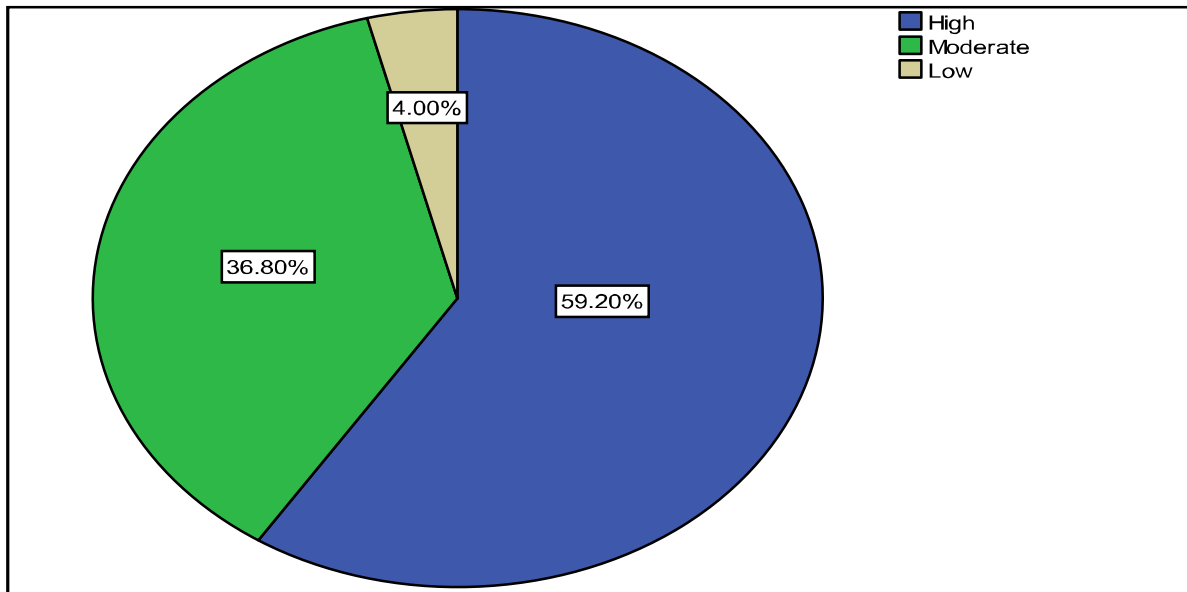


**Figure 4.16: Impact of the differentiation strategy as a strategic response**

The results of the study show that the majority of the respondents view the differentiation strategy as the highest impact as a strategic response to dynamic economic environment in the Kenyan oil market. The figure 4.15 shows that 67.50 percent of the results show that the differentiation strategy contributes highly, while 32.50 percent of the respondents view it as contributing moderately. It is worth noting that product differentiation as a strategic response was applied to a very low extent although respondent see it to have very high impact if applied.

### 4.5.3 Focus Strategy

Figure 4.16 shows the impact of focus strategy to dynamic economic environment of marketing oil companies in Kenya.

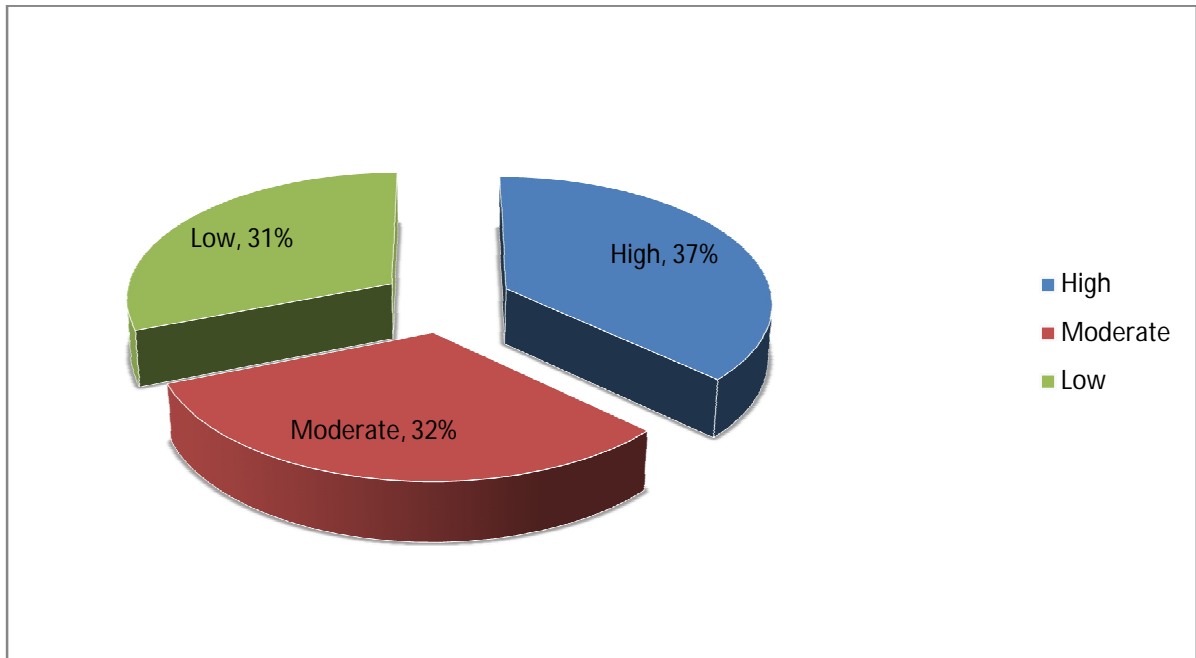


**Figure 4.17: Focus Strategy contribution to the Kenyan Oil Market**

The results of the study show that 59.20 percent of the respondents believe that the focus strategy high impact has a strategic response to dynamic economic environment of the Kenya oil companies, on the other hand 36.80 percent of the respondents view that the focus strategy contributes moderately while 4.00 percent believe that this strategy has a low contribution.

### 4.5.4 Vertical Integration

Figure 4.17 shows the impact of the vertical strategy in a dynamic economic environment in the Kenyan oil industry.

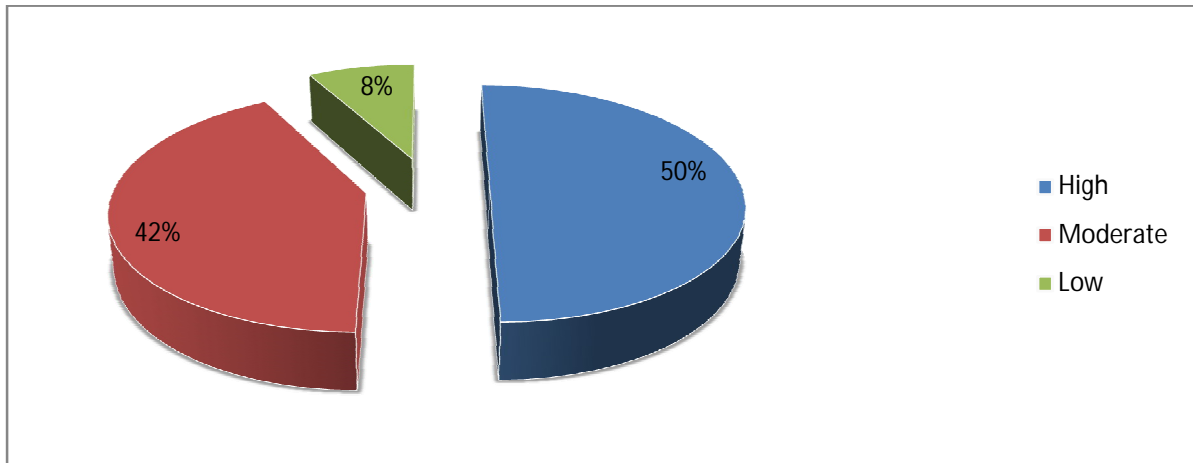


**Figure 4.18: Vertical Integration**

The results of the study show that 37 percent of the respondents believe that vertical integration strategy impacts highly to dynamic economic environment of oil marketing companies in Kenya, on the other hand 32 percent of the respondents view that the vertical integration strategy contributes moderately while 31 percent believe that this strategy has a low contribution. It is worth noting that this strategy was equally rated low in terms of application and therefore not a very useful strategic response option for oil marketing companies in Kenya.

#### **4.5.6 Joint Venture**

Figure 4.18 shows the impact of the joint venture strategy in a dynamic economic environment in the Kenyan oil industry.

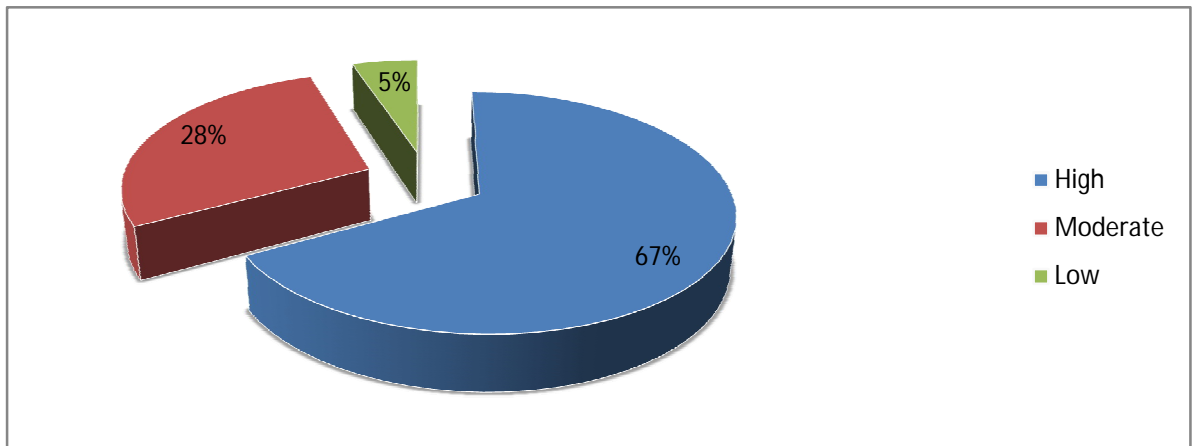


**Figure 4.19: Joint Venture**

The results of the study show that 50 percent of the respondents believe that joint venture strategy impacts highly to oil marketing companies, on the other hand 42 percent of the respondents view that the vertical integration strategy contributes moderately while 8 percent believe that this strategy has a low contribution.

#### 4.5.7 Acquisitions and Mergers

Figure 4.19 shows the impact of acquisition and mergers strategy in a dynamic economic environment in the Kenyan oil industry.



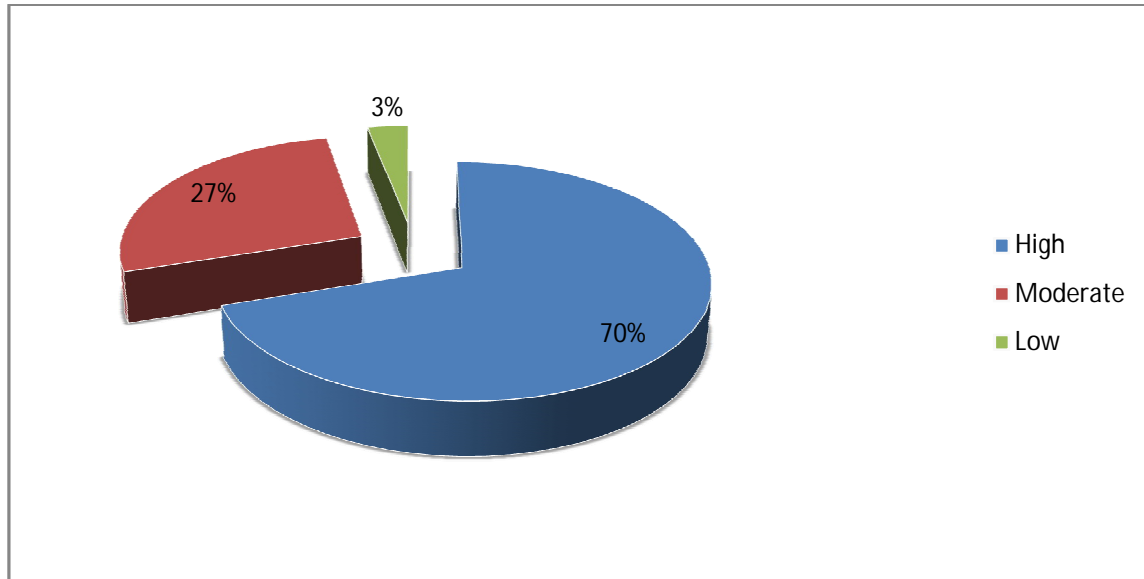
**Figure 4.20: Acquisitions and Mergers**

The results of the study show that 67 percent of the respondents believe that acquisition and mergers strategy impacts highly to oil marketing companies, on the other hand 28 percent of

the respondents view that the acquisition and mergers strategy contributes moderately while 5 percent believe that this strategy has a low contribution.

#### 4.5.8 Strategic Alliances

Figure 4.20 shows the impact of strategic alliance in a dynamic economic environment in the Kenyan oil industry.



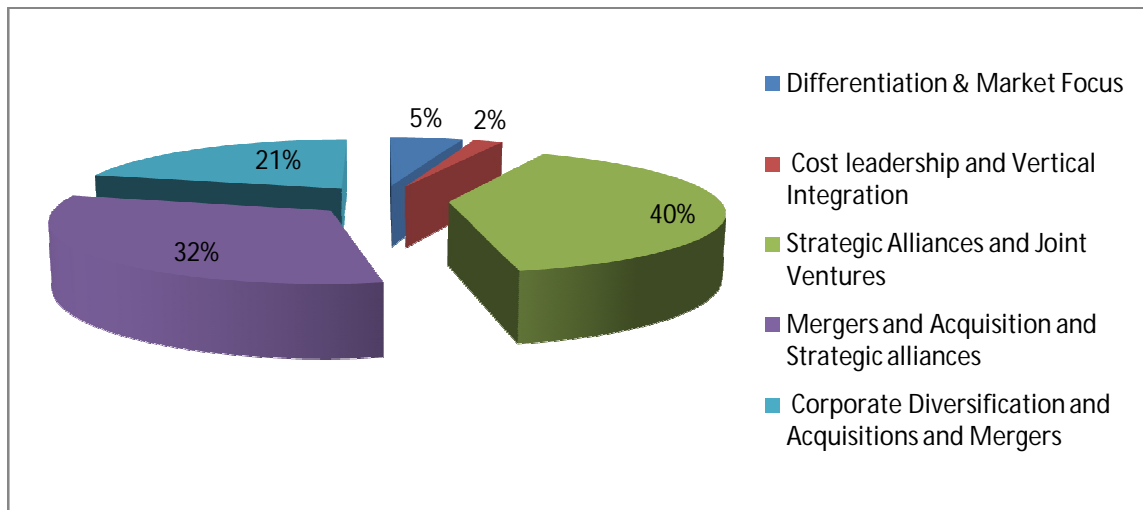
**Figure 4.21: Strategic Alliance**

The results of the study show that 70 percent of the respondents believe that strategic alliances strategy impacts highly to oil marketing companies, on the other hand 27 percent of the respondents view that strategic alliances contributes moderately while 3 percent believe that this strategy has a low contribution. It is worth noting that strategic alliances was equally rated highly in application as a strategic response by oil marketing companies to dynamic economic environment in Kenya.

#### 4.6 Suitable Strategic Combinations

The next section after establishing the impact of each of strategic response to dynamic economic environment explored what respondents thought were the best combinations of strategies in facing dynamic economic environment of oil marketing companies in Kenya.

Figure 4.21 shows the results of the responses with regards to the suitable strategic combinations.



**Figure 4.22: Suitable Strategic Combinations**

The results of the study shows that a combination of strategic alliances and joint ventures or strategic alliance and mergers and acquisition were the best in facing dynamic economic environment of oil marketing companies in Kenya with 40 percent and 32 % respectively. A combination of differentiation and market focus strategy and cost leadership and differentiation strategy received the lowest rating of 5 percent and 2 percent respectively.

#### **4.7 Chapter Summary**

In this chapter the researcher has provided the findings with regards to the information issued by the respondents. The initial section provides the results in terms of the respondent's background, which is followed by the strategic response by the oil marketing companies in a dynamic economic environment. The next chapter offers the conclusion, summary as well as the discussions and the recommendations.

## **CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter consists of four sections, namely summary, discussion, conclusions, and recommendations following that order. The first section provides a summary of the important elements of the study which includes the study objectives, methodology and the findings. The second section discusses the major findings of the study with regards to the specific objectives. The third section discusses the conclusions based on the specific objectives, while using the findings and results which are obtained in the fourth chapter.

### **5.2 Summary**

The general objective of the study was to establish the strategic response by oil manufacturing companies in a dynamic economic environment in Kenya. The research was guided by the following objectives: to establish strategic responses adopted by Oil Marketing Companies towards the dynamic economic environment in Kenya. In order to achieve the above, the study adopted a cross-sectional survey research design in order to obtain the data that is necessary, which in essence facilitated the collection of the primary data as a way of getting into the research objectives. The population under study was 55 oil marketing companies. The census survey technique was used, because it has an advantage in that it will obtain data from each of the companies which will provide greater accuracy and reliability. The collection of the primary data was done using structured questionnaires that were pilot tested in order to ensure that there was reliability as well as validity. The coding of the data was done with the use of Microsoft Excel as well as SPSS in order to generate the descriptive statistics for instance frequencies and percentages. The presentation of the results was in form of figures, tables as well as cross tabulations.

The findings on the background information revealed that the majority of the respondents (65 %) were of male while females were the minority (35%). The findings also indicated that most of the respondents (45 %) were bachelor degree and master's degree holders respectively. This is a clear indication that most of the respondents are well aware of the economic dynamics and therefore well versed with the various strategies in such a scenario. The findings also revealed that more than 95 percent of the respondents have been in the oil



industry more than 2 years. This is a clear indication that the respondents had massive experience of the oil industry in Kenya; as such they were equipped with the knowledge of the market dynamics in Kenya.

Looking at the strategies mostly used by oil marketing companies in the Kenya majority (96percent)of the oil companies applied domestic strategies and multi-domestic strategies. At the same time 56 percent of the respondents reported that their respective companies operated in the East African market. This can be said to be the reason behind the use of domestic strategy among most oil marketing companies in Kenya.

The findings on the strategic response by oil marketing companies to a dynamic economic environment in Kenya revealed that focus market (50 Percent), joint ventures (50 percent), strategic alliances (64 percent) as well as corporate diversification (34 percent) stood out as the popular strategies used by oil marketing companies in a dynamic economic environment. The other strategies although used by the oil marketing companies, they are not very popular. The findings also revealed that a combination of strategic alliances and joint ventures was the best suitable in a dynamic economic environment.

### **5.3 Discussion**

The findings on the strategies used by oil marketing companies in Kenya revealed that majority of oil companies use domestic as well as multi-domestic strategies. These findings also revealed that the scope of operation of most companies is East Africa (56 percent) and Africa (40 percent) with only 4 percent having Global Scope. The findings therefore support that all regional companies apply domestics or multi-domestic strategies. The choice of the strategy to use can therefore be said to have been influenced by the external environment. According to Mintzberg (2001), the best strategies see continuously scan the environment and respond the changes in time to counter any affect on companies competitive edge. Organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. The strategic response by oil marketing companies in Kenya drew various responses from the respondents. Majority of the respondents believed that focus market strategy was a suitable strategic response to the dynamic economic environment in Kenya.

According to Treacy and Wiersema (1995) a firm typically will choose to emphasize one of three “value disciplines”: product leadership, operational excellence, and customer intimacy. Operational Excellence - "best price with least inconvenience". Similarly Porter (1998) claims that recognizing and accurately reading market signals is of major significance for developing competitive strategy and reading signals from behavior is an essential supplement to competitor analysis. A prerequisite to interpreting signals accurately is to develop a baseline competitor analysis; an understanding of competitors’ future goals, assumptions about the market and themselves, current strategies and capabilities. It is not uncommon for competitors to comment on industry conditions, including forecasts of demand and prices, forecasts of future capacity and the significance of external changes.

The respondents also believed that joint venture was also a strategic response to the dynamic economic environment as pursued by oil marketing firms in Kenya. These findings align with the argument by Pearce and Robinson who avows that firms can look outside their current operations and therefore buy access to new products or markets. Joint ventures are one common form of external diversification. They occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by cutting down the cost of operations. During the study it was noted that most joint ventures are at operational level and this can be attributed to efforts by oil companies to cut cost in a competitive and largely price controlled industry. A number of oil marketing companies in Kenya are currently running joint operations at oil storage facilities in Mombasa and Nairobi. Other benefits of Joint venture also come with synergies in management which is achieved by combining the management teams from the merged firms (Pearce, and Robinson, 2007).

Majority of the respondents also believed that strategic alliances as a strategic response to a dynamic economic environment was being pursued by oil marketing companies in Kenya. Oliver (1997), concurs with this finding when he avows that strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. According to Wheelen and Hunger (2004), companies for strategic alliances to obtain technology and manufacturing capabilities, obtain access to specific markets, reduce

financial risk, reduce political risk and achieve or ensure competitive advantage. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997). While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm's competitive position in many industries. Competitors can serve a variety of strategic purposes that increase a firm's sustainable competitive advantage and improve the structure of its industry (Porter, 1985). The study revealed a number of strategic alliances not only in oil marketing activities but also convenient stores situated at oil marketing companies' retail service stations. This could be attributed to such companies attempt to attract customers who come to such store to buy other goods but end up buying fuel for their cars.

The findings also revealed that the respondents were of the opinion that corporate diversification stood out as the popular strategic response in a dynamic economic environment. Corporate-level strategic responses address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. Decisions of about whether to vertically integrate, form strategic alliances, diversify or enter into mergers and acquisitions is part of corporate level strategic responses, (Barney J.B; Hesterly W.S, 2008). Internal diversification can take place in distinct ways. One of these is to market existing products in new markets. In the case of oil firms, may elect to broaden its geographic base to include new customers, either within its home country or in international markets. The oil firms could also pursue an internal diversification strategy by finding new users for its current product. Finally, oil firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

Product differentiation was applied to a very low extent although it has high impact as strategic response in dynamic economic environment of oil marketing companies in Kenya. These findings align with Kombo (1997) who found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers

more and improved customer services. They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition. According to Chwelos(2001), product differentiation enables an organization to achieve improved performance with regards to the competition.

This is because superior benefits tend to bring about an enhancement of customer loyalty and perceived quality, which a firm can exploit with respect to its resource-capability combinations to effectively attain a differentiation, based competitive advantage. This therefore should be able to improve its performance compared to competitors by selling more units at the same margin or by selling the same number of units at a greater margin. This strategy is not very popular in oil marketing in Kenya and could be attributed to joint importation and common industry standards for oil in Kenya. It was noted during the study that although most of the companies that differentiated their products sold them at no extra cost, a few did attract some premium

#### **5.4 Conclusion**

The purpose of this study was to determine the strategic response to a dynamic economic environment by oil marketing companies in Kenya. The study looked to identify specific response strategies that fit the kind of market that of Oil Industry in Kenya. The study objective was therefore to bridge the gap on use of generic strategies and unique market specific strategic responses to dynamic economic environment of oil marketing companies in Kenya. Pearce and Robinson, ( 2005) observed that because consumption patterns are affected by the relative affluence of various markets segments, each firm must consider economic trends in the segments that affect its industry.

The study identified and established strategic responses used by oil marketing companies in dynamic economic environment in Kenya which guided making conclusions and recommendations. The study established that majority of oil marketing companies are either regional or locally owned. Most of these Companies apply domestic or multi domestic strategies. It is clear from the research that global strategies are not suitable for the oil market in Kenya.

The study has established that the strategic response by oil marketing companies to a dynamic economic environment in revolved around the use of focus market, joint ventures, strategic alliances as well as corporate diversification. Similarly it can be concluded that a combination of strategic alliances and joint ventures was the best suitable in a dynamic economic environment. The external environment in which Oil Companies in Kenya are operating has been very dynamic in the last two decades since liberalization. From the research it is clear that the new entrants into the market have been very high in the last decade representing over 70 percent of the companies. Pearce and Robinson (2005), states that consumption patterns are affected by the relative affluence of various markets segments, each firm must consider economic trends in the segments that affect its industry. The new entrants can be said to be winning on this front.

The study has established that strategic response by oil marketing companies to a dynamic economic environment revolved around the focus market, joint ventures, strategic alliances and corporate diversification. It was observed that application of product differentiation strategy was low (8 percent) though respondent did agree that this had very high impact (67.5 percent). A combination of strategic alliance with joint ventures or acquisition and mergers with strategic alliance produces over 70 percent impact towards combating dynamic economic environment of oil industry in Kenya. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997).

### **5.5 Recommendations**

The objective of the study was to add value to theory, practice and used by policy makers to maintain caution when engaging strategic responses and eradicate mixed signals which can be detrimental to oil marketing companies in Kenya if strategic responses emanated from wrong interpretation of dynamic economic environment in the country. The Kenya oil market has in the recent past seen exit by large multinationals in Kenya following regulatory and economic changes could and this has negative effective in the stability of this crucial part of the Kenya economy. In this section the researcher gives recommendations that indeed feel that are important in formulating guidelines for strategic response by organizations in a dynamic economic environment.

With regards to the strategic response to the dynamic economic environment in Kenya, the study recommends that oil marketing companies should consider adopting Domestic or Multi-domestic strategies which are suitable for local economic environment other than applying global strategies that may not be relevant to the dynamic economic environment of oil marketing companies in Kenya. The study further observes and recommends blending of strategic response that are best suited for the market dynamics and in the case three levels are recommended; when going for Strategic Alliances, companies should consider combining this with either Joint Venture in operations as this provides a platform for cost reduction due to economies of scale, while when a company is considering Corporate Diversification, it recommended to combine this with Mergers and Acquisitions as this provide a faster and established approach to market diversification as compared to starting from scratch. Companies should also consider product differentiation despite its low application as it's has high impact of 67.5 percent.

### **5.6 Limitations of the Study**

Whereas no effort was spared in ensuring the objective of the study was achieved, the researcher faced some challenges that limited the extent to which the study be done. The study focused on a very sensitive area of Strategy in a turbulence oil market economic environment limiting the extent of information provided by respondents. The study focused on strategic response which meant that the respondents needed to be at senior management level who in some cases were unavailable delegating their responsibility a case which limited the extent of information availed to researcher. Some organization viewed the information as competitive in nature and their international procedures did not allow them to provide information supported by numbers. This meant that in some cases information provided could not be independently verified.

Time was a key limitation and as such a cross-sectional survey was used. This method by itself has limitation in that it is confined to a specific point in time. That is, it provides a snapshot of a sample of a population at a single point in time. Since in firm's strategic responses constantly change overtime, cross-sectional surveys for such situations may not reflect the actual situation. A Longitudinal study would be useful in order to compare the strategic response of different oil marketing companies over a long period of time.

Time was a key limitation during data collection and analysis. There were also cases of travelling constraints as the researcher had relocated outside the country during the study resulting in lengthy period of data collection, data analysis and discussions on findings. However the researcher felt that information provided did provide an accurate picture of the oil marketing company's strategic response in a dynamic economic environment in Kenya.

### **5.7 Recommendations for Further Studies**

The recent exits by large multinationals could be as a result of inadequate or inappropriate application of strategic response to dynamic economic environment of oil marketing companies in Kenya (Kinuu, 2007). In the last decade alone three multinational companies have left, Mobil in 2006, BP in 2007 and Chevron in 2010. Shell and BP sold their share holding at Mombasa-based Kenya Petroleum Refineries to India multinational, Essar. In April 2010 Shell announced its intentions to leave Africa, including Kenya and its currently moving into a minority shareholding with Vittol and Hellios.

The study shows that over 70 percent of the companies have entered the market in the last decade and most of these are either regional or locally owned. The oil industry on Kenya can therefore be described as dynamic and growing and therefore it is important for the organization to put into consideration the aspects that influence strategic response in dynamic economic environment. In this regard the researcher recommends that additional studies be done to understand the impact of strategic response in the Kenya oil industry with a view of establishing the reasons for the recent exit by multinational corporations and the emergence of local and regional companies. It is important for such a study to establish the overall impact of these changes to this key part of the economy and how this will influence the future of oil industry in Kenya.

### **5.8 Implications on Policy, Theory and Practice**

The study contributes by providing useful and practical insights to policy-makers and organizations to maintain caution when engaging in strategic responses. This endeavour is aimed at eradicating mixed signals which can be detrimental to organizations if the strategic responses emanated from wrong interpretation of the economic environment in the country.

It informs policy-makers and managers on the interventions of company strategies in dynamic environments. Secondly in light of the study findings and implications, this research project (study) suggests the following recommendations. The study shows that government penetration in this key market is very low (2 percent) and most of the companies are privately owned. A policy of attracting more government funds to the oil market is necessary as this will deepen the market and make it less dynamic and amenable. There is need for the ministry of energy to come up with measures to cushion the local oil firms from the dynamism in the economy as most of the ownership was also in the hands of foreign capital.

The study reveals that most companies are moving towards strategic alliances and joint ventures. From a policy perspective most companies are targeting to cut down on operational cost and this has an impact on the economy as this will impact on spending power as less and less money is spent on operations. For the government this should concern them on the impact this might have on employment and emergence of monopolistic tendencies which might compromise on fair competition. Such strategies have often only strengthened the position of bigger oil firms in the market creating an oligopolistic industry which has tendencies to act as a cartel. The state owned National Oil Corporation claims stakes in larger market share (Republic of Kenya, 2007) although the study shows that they still have a weaker position and therefore unable to regulate the market. The Energy Regulation Commission should therefore review their policies to ensure a sound, stable and fair market is maintained.

The study shows that the Kenya oil market remains largely in the hands of private capital. The profit margins in the oil industry in Kenya are shrinking faster due to high cost in global oil market; the government's tightening control of oil import, storage and distribution process and with recent introduction of price control. The supply is restricted and suffers inefficiencies, and all this lead to fears that the marketing firms could be strangled (Republic of Kenya, 2008). This should sound some alert to company executives and policy makers to continuously scan their environments and adjust their strategic response to effectively respond to dynamism. It is only firms that timely and effectively respond to these changes that will eventually survive the current turbulence.



From a theory perspective, it can be seen from the study that different strategic response are required for each dynamic economic environment and successful firms are those that continuously scan their environment and timely apply appropriate strategic response to changing and dynamic situations. A firm's strategy is almost a theory. It's a firms best bet about how competition is going to evolve (Barney and Hesterlky, 2008). Because consumptions patterns are affected by relative affluence of various markets segments, each firm must consider economic trends by the segments that affect its industry (Pearce and Robinson, 2005). The study did identify and recommend various strategies for use in dynamic economic environment of oil marketing companies in Kenya. These included combinations of various strategic responses that the study found most suitable and having high impact in responding to dynamic nature of the market. This study therefore contributes to closing a theory gap in understanding and recommending strategic responses suitable for oil marketing companies in Kenya.

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## APPENDICIES

### Appendix I: Questionnaire

Please Tick  $\surd$  as appropriate

#### PART A: General Information

1. Please indicate as appropriate:

Gender:

Male

Female

2. Please indicate your level of education

a. Diploma [ ]

b. Bachelor [ ]

c. Masters [ ]

d. Doctorate [ ]

e. Other (Please specify) \_\_\_\_\_

3. How long have you been working in the oil industry?

a. Less than 2 year [ ]

b. 3 – 5 years [ ]

c. 6 – 9 years [ ]

d. 10 years and above [ ]

4. What is your position in the company?

a. Board of Directors [ ]

- b. Senior Management
- c. Other (Please specify) \_\_\_\_\_

**5. Does your company have branches all over Kenya?**

- a. Yes
- b. No
- c. Don't Know

**6. What is your Ownership of the company**

- a) Local (over 51%)
- b) Foreign (Over 51%)
- c) Government (over 51%)
- d) Other Specify.....

**7. Years of Operation of the company in Kenya**

- a. Less than a year
- b. 1 – 5
- c. 6 – 10
- d. 11 – and above

**8. Does your company operate internationally?**

- a) No
- b) East African region only
- c) Africa only

d) The whole world [ ]

9. What Strategy does your company employ?

a) Global [ ]

b) Multi-Domestic [ ]

c) Domestic [ ]

d) Others Specify.....

10. What is your current market share? .....

11. Which other features/ characteristics of your company do you know that differentiate it from the rest? Please list them below:

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**PART B: Oil Marketing Companies Strategic Responses to the Dynamic Economic Environment in Kenya**

12. Which of these strategic responses does your company pursue in Kenya's Dynamic Economic environment?

- a) Cost leadership (Low cost)
- b) Product Differentiation
- c) Focus Market (Niche Market)
- d) Vertical Integration
- e) Joint Venture
- f) Acquisitions and Mergers
- g) Strategic Alliances
- h) Corporate Diversification (Market)



13. To what extent does your company use these strategies response in response to changing economic environment.(Tick only one box for each attribute, where 1= very small extent, 2= small extent, 3 = moderate extent, 4 = larger extent 5 = very large extent)

Strategic Response	1	2	3	4	5
Cost leadership (Low)					
Product Differentiation					
Focus Market					
Vertical Integration					
Joint Venture					
Acquisitionsand Mergers					
Strategic Alliances					
Corporate Diversification (Market)					

14. Which of the above (Q 13) strategic responses do you think fits the oil market in Kenya?\_\_\_\_\_

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15. What is the impact of these strategies when adopted for Strategic Response in the Dynamic Economic Environment of the Marketing Oil Companies in Kenya

Strategies	High	Moderate	Low	Never
Cost leadership				
Product Differentiation				
Focus Market				
Vertical Integration				
Joint Venture				
Acquisitions and Mergers				
Strategic Alliances				
Corporate Diversification (Market)				

16. Which of these strategic combinations would suit the oil industry in Kenya?

- a) Differentiation and Low cost leadership
- b) Differentiation and market focus
- c) Cost leadership and Vertical Integration
- d) Strategic Alliances and Joint Ventures
- e) Mergers and Acquisition and Strategic alliances
- f) Corporate Diversification and Acquisitions and Mergers
- g) Other Specify.....

17. Which other Strategic Responses are adopted by your company in Dynamic Economic Environment in Kenya

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**Thank you for your participation**

## Appendix II: Letter of Introduction



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAM - LOWER KABETE-CAMPUS**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22995 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE..... 14/09/2011

### TO WHOM IT MAY CONCERN


The bearer of this letter..... PETER K MURUNGI  
Registration No:..... DG1/P/7258/2005

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
**DR. W.N. IRAKI**  
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA OFFICE  
P. O. Box 30197  
NAIROBI

### Appendix III: Oil Marketing Companies in Kenya

1	Metro Petroleum Limited
2	Tecaflex Limited
3	Mbaraki Bulk Terminal Limited
4	Ranway Traders Limited
5	Quantum Petroleum Limited
6	Samhar Petroleum Products Limited
7	Orix Oil Kenya Limited
8	Keroka Petroleum Limited
9	East African Gasoil Limited
10	Regnol Oil (K) Limited
11	Kenol Limited
12	Kobil Petroleum Limited
13	Olympic Petroleum Limited
14	P.J. Petroleum Equipment Limited
15	Intoil Limited
16	Muloil Limited
17	Libya Oil Kenya Limited
18	Hass Petroleum Kenya Limited
19	Bakri Int. Energy Company Limited
20	Topaz Petroleum Limited
21	Galana Oil Kenya Limited
22	Riva Petroleum Dealers Limited
23	National Oil Corporation of Kenya
24	Oil City Services Limited

25	Jaguar Petroleum Limited
26	Global Petroleum Products Kenya Limited
27	Total Kenya Limited
28	Gulf Energy Limited
29	Ainushamsi Energy Limited
30	Jade Petroleum Limited
31	Alba Petroleum Limited
32	Petro Oil Kenya Limited
33	Kenya Shell Limited
34	Royal Energy (K) Limited
35	Tosha Petroleum (Kenya) Limited
36	MGS International (K) Limited
37	Addax Kenya Limited
38	Banoda Oil Limited
39	Gapco Kenya Limited
40	Fossil Fuels Limited
41	Oilcom Kenya Limited
42	Engen Kenya Limited
43	Trojan International Limited
44	Hashi Energy Limited
45	Kamkis Trading Company Limited
46	Premium Petroleum Company Limited
47	Al leyl Petroleum Limited
48	Fast Energy Limited
49	Essar Petroleum (East Africa) Limited
50	One Petroleum Limited

51	Dalbit Petroleum Limited
52	Millenium Dealers Limited
53	Mafuta Products Limited
54	Kenya Petroleum Refineries ( <b>New – Licensed to allow conversion to merchant refinery</b> )
55	Cape Supplies Ltd ( <b>New</b> )

**Source: Energy Regulation Commission (2011)**