MERGERS AND ACQUISITIONS AS A STRATEGY FOR
COMPETITIVE ADVANTAGE: A CASE STUDY OF TOTAL
KENYA LTD

MATHENGE CAROLINE WANJIRU

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF
BUSINESS IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, UNIVERSITY OF
NAIROBI.

NOVEMBER, 2011
DECLARATION

This Research project is my original work and has not been presented for a degree in any other University.

Signed.................................................                       Date................................................

Mathenge Caroline Wanjiru

D61/7841/2006

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

Signed.................................................                       Date................................................

MR J. Kagwe

Lecturer

School of Business

University of Nairobi
DEDICATION
To my Husband Meshack Ndirangu for his love and support, my parents Mr. Christopher Mathenge and Mrs. Alice Mathenge for being there for me with their tremendous support through prayer and belief in me even during my financial struggles.
ACKNOWLEDGEMENT

My foremost gratitude goes to God Almighty who renewed my strength at every single stage of doing this proposal.

A lot of thanks go to my supervisor Mr Kagwe for his invaluable assistance given without complaint, many hours of positive criticism, comments and suggestions that have enabled me to come up with a refined project.

I also take this opportunity to thank the University of Nairobi for introducing a flexible Master of Business Administration Degree and all my lecturers for their contributions in my entire pursuit of my MBA study.

I also thank the management of Total Kenya Limited for their support and understanding during the entire time that I pursued my MBA study. I appreciate and sincerely thank my family, sisters, brother, friends, colleagues and in-laws, especially Mr. and Mrs. Mathenge for moral and financial support.

Last but not least special gratitude goes to my husband the love of my life Meshack Ndirangu for his patience during the late nights and early mornings that I have worked and compiled this project.

Despite all the ups and downs, working on this proposal has been a great learning experience.
ABSTRACT

The business strategy perspective argues that achieving competitive advantage hinges on the existence of a coherent competitive strategy. The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like mergers and acquisitions, strategic alliances and joint ventures. The mergers and acquisitions are arguably the most popular strategy among firms who seek to establish a competitive advantage over their rivals.

The objective of this study was to establish how mergers and acquisitions are used as a source for competitive advantage by Total Kenya Limited. The research design was a case study of Total Kenya Limited. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews from the management team of TKL. These managers represent different functional areas of the company in an effort to capture the different roles that managers in different departments played which will be an eye opener on the competitive advantage that TKL enjoys.

The findings from the study was that as a result of the mergers and acquisitions, the company was able to achieve increased market share, improved distribution network, acquisition of stations located in strategic and profitable areas, acquisition of synergies and economies of scale and the Lubricants Blending Plant with a view of increasing sales in the lubricants sector which is highly profitable and also for business growth. The
company achieved competitive advantage from the mergers and acquisition through economies of scale which is achieved by selling more of the same product, economies of scope resulting from sharing resources common to different products, better control of costs and thereby improve profit margin, increased entry barriers to potential competitors, if the firm can gain sole access to a scarce resource, increased dependability of the supply or quality of raw materials used as production inputs and improve the predictability of demand for its output through forward vertical integration.

The conclusion from the study was that the management of the company should ensure that the acquisition of the company becomes a success by ensuring that the company achieves its intended objectives. The company’s competitive advantage was derived from its ability to assemble and exploit an appropriate combination of resources.
TABLE OF CONTENTS

DECLARATION.......................................................................................................................... II
DEDICATION........................................................................................................................... III
ACKNOWLEDGEMENT.......................................................................................................... IV
ABSTRACT............................................................................................................................ V
ABREVIATIONS..................................................................................................................... IX

CHAPTER ONE: INTRODUCTION..........................................................................................1
1.1 Background of the study ................................................................................................. 1
  1.1.1 Mergers and Acquisitions ......................................................................................... 2
  1.1.2 Competitive Advantage ......................................................................................... 3
  1.1.3 Mergers and Acquisitions as a source of competitive advantage ......................... 5
  1.1.4 An Overview of the Oil Industry ............................................................................. 6
  1.1.5 Total Kenya Limited ............................................................................................... 7
1.2 Research Problem .......................................................................................................... 8
1.3 Research Objective ....................................................................................................... 10
1.4 Importance of the study .............................................................................................. 10

CHAPTER TWO: LITREATURE REVIEW ...........................................................................11
2.1 Introduction .................................................................................................................. 12
2.2 Mergers and Acquisitions ............................................................................................ 12
2.3 Competitive Advantage .............................................................................................. 13
2.4 Mergers and Acquisitions as a source of competitive advantage ............................... 14

CHAPTER THREE: RESEARCH METHODOLOGY ..........................................................17
3.1 Introduction ................................................................................................................ 17
3.2 Research Design ......................................................................................................... 17
3.3 Data collection ............................................................................................................ 17
3.4 Data Analysis ............................................................................................................. 18

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION.................................19
4.1 Introduction ................................................................................................................ 19
4.2 Data analysis ............................................................................................................. 19
4.3 Findings of the study ................................................................................................. 19
4.5 Discussion of the findings ......................................................................................... 23

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.......................25
5.1 Introduction ................................................................................................................ 25
5.2 Summary of the study ............................................................................................... 25
5.3 Conclusion ................................................................................................................ 27
5.4 Recommendations ..................................................................................................... 28
5.5 Limitations of the study ............................................................................................ 29
5.6 Suggestions for Further Research ............................................................................ 29
### ABREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A-</td>
<td>A Mergers and Aquisitions</td>
</tr>
<tr>
<td>I.E –</td>
<td>That is</td>
</tr>
<tr>
<td>C.I.C-</td>
<td>Change in Control</td>
</tr>
<tr>
<td>PIEA-</td>
<td>Petroleum Institute of East Africa</td>
</tr>
<tr>
<td>ERC-</td>
<td>Energy Regulatory Commission</td>
</tr>
<tr>
<td>TKL-</td>
<td>Total Kenya Limited</td>
</tr>
</tbody>
</table>
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Although uttered in the same breath the terms merger and acquisition respectively have different meanings. According to Pandy, (1999) a merger is said to occur when two or more companies combine into one company. One or more companies may merge with an existing company or they merge to form a new company. An acquisition on the other hand occurs when an existing or new company takes over the ownership of the other firm and combines its operations with that of its own. Legally the target company ceases to exist. As a result many takeovers receive a lot of resistance from shareholders and the management of entities (ibid).

M&A’s usually start out with a series of informal discussions between the boards of the companies, followed by formal negotiation, a letter of intent, due diligence, a purchase or merger agreement, and finally, the execution of the deal and the transfer of payment. These transactions take a long period of time and can be complex, particularly from legal and accounting perspectives. During this process, companies often hire investment bankers or other intermediaries to facilitate M&A transactions. These intermediaries can help sellers find buyers, conduct the negotiations for a client, handle paperwork, and perform the due diligence on the other party. For this, the intermediary receives a fee, which is usually a percentage of the transaction amount (David et,al, 2006).

M&A have become one of the most well-known business strategies in the global economy. In today’s competitive marketplace, companies that have a winning set of capabilities create significantly more value than their peers and M&A is a vehicle for making sure that you have the right capabilities to do so (Kongpichayanond, 2009).
The key principle in buying a company is to create shareholder value over and above the two companies and are hence more valuable than the two separate companies. This as a result during this tough economic times has lured companies in experiencing a competitive advantage relating to this unions such as; Increasing market share, acquiring new products, acquiring strategic assets, access to specialized manpower, improve return on investment for shareholders and synergy are among the reasons that companies choose to engage in mergers and acquisitions. Because of this potential benefits companies will hence go through M&A because they know they cannot survive on their own (Pautler, 2001).

1.1.1 Mergers and Acquisitions

A merger is the unification of two equal players into one entity; on the other hand an acquisition refers to one player buying out another to combine the bought entity with itself (The Chartered Accountant, 2004). According to the (Investopedia.com, 2010) Mergers and acquisitions refers to two companies combining to have to create more value as compared to when they were separate entities. The key principles behind mergers and acquisitions are creating shareholder value over and above the two companies. Two companies together are hence more valuable than two separate companies which is a competitive advantage to the firm.

Broadly there are two ways to grow a business i.e. through organic growth and inorganic growth. In the organic growth path the company incrementally grows its people, customers, infrastructure resources resulting to the growth of revenues and profits. In the case of inorganic growth the company grows instantaneously enabling the company to skip a number of steps in the growth path. M&A’s are an inorganic growth strategy (Chartered Accountant, 2004)
1.1.2 Competitive Advantage

Competitive advantage is an advantage gained by a firm by offering consumers great value for products by way of price or better service that would hence justify the high price for the goods or services rendered. There are five forces that give a firm a competitive position this are namely New market entrants, Supplier power, Product Technology and Development, Buyer Power and Competitive Rivalry. These forces are illustrated in Figure 1 as shown below, and are discussed in the following paragraph.

**Fig 1: Porters Five forces of Competitive Position**

- **New Market Entrants, eg:**
  - entry ease/bars
  - geographical factors
  - incumbents resistance
  - new-entrant strategy
  - routes to market

- **Supplier Power, eg:**
  - brand reputation
  - geographical coverage
  - product/service level quality
  - relationships with customers
  - bidding processes/abilities

- **Competitive Rivalry, eg:**
  - number and size of firms
  - industry size and trends
  - fixed vs variable cost bases
  - product/service ranges
  - differentiation, strategy

- **Buyer Power, eg:**
  - buyer choice
  - buyers size/number
  - change cost/frequency
  - product/service importance
  - volume, JIT scheduling

- **Product and Technology Development, eg:**
  - alternatives price/quality
  - market distribution changes
  - fashion and trends
  - legislative effects

Source: Michael E. Porter; (1980); New York: Free Press

Rivalries naturally develop between companies competing in the same market. By advertising, introducing new products, more attractive customer service and warranties, and price competition to improve their market share in the industry. Rivalry is the result of factors like
equally balanced companies, slow growth within an industry, high fixed costs, lack of product
differentiation, overcapacity and price-cutting, diverse competitors, high-stakes investment, and
the high risk of industry exit.

Substitute products are the natural result of industry competition, but they place a limit on
profitability within the industry. A substitute product involves the search for a product that can
do the same function as the product the industry already produces. Substitute products take on
added importance as their availability increases firms competitive edge.

Suppliers have a great deal of influence over an industry as they affect price increases and
product quality. A supplier group exerts even more power over an industry if it is dominated by a
few companies a good example being the oil industry in Kenya dominated by Multinationals.
Labor supply can also influence the position of the suppliers. These factors are generally out of
the control of the industry or company but strategy can alter the power of suppliers.

The buyer's power is significant as this has to obey the forces of supply and demand in that
buyers can force prices down, demand higher quality products or services, and, in essence, play
competitors against one another, all resulting in potential loss of industry profits. Buyers exercise
more power when they are large-volume buyers. The bargaining position of buyers changes with
time and a company's.

Threats of new entrants into an industry depend largely on barriers to entry which are:
Economies of scale, or decline in unit costs of the product, Product differentiation and customer
loyalty, Capital requirements in relation to investment of large capital, Switching costs or the
cost the buyer has to absorb to switch from one supplier to another, Access to distribution
channels and Cost disadvantages independent of scale, whereby established companies already
have product technology, access to raw materials, favorable sites, advantages in the form of
government subsidies, and experience.

New firms can expect retaliation from existing companies and also face changing barriers related
to technology, strategic planning within the industry, and manpower and expertise problems. The
entry deterring price or the existence of a prevailing price structure presents an additional
challenge to a firm entering an established industry.

To be profitable, the firm has to find and establish itself in an industry so that the company can
react to the forces of competition in a favorable manner (Porter, 1980).

1.1.3 Mergers and Acquisitions as a source of competitive advantage

The business world is never static (Brown et al, 1998). One of the challenges presented by a dynamic
environment is increased competition. Competition is indeed a very complex phenomenon that is
manifested in customers, suppliers and potential market entrants (Chang’orok, 2009). Achieving
competitive advantage is the most important goal of a firm (Porter, 1979). Every merger has its own
unique reasons why the combining of two companies is a good business decision. The underlying
principle behind mergers and acquisitions is: $2 + 2 = 5$. The value of Company A is $1$ billion and the
value of Company B is $1$ billion, but when we merge the two companies together, we have a total
value of $3$ billion.

Merging of the two companies creates additional value synergy. There are three forms of synergy that
is revenue when two companies are combined higher revenue is realized. By combining two
companies we realize lower expenses as compared to when the two companies operated
independently. The overall cost of capital goes down once companies are merged the biggest source
of synergy value is lower expenses. Most mergers are driven by the need to cut costs. Companies cut
costs by elimination of redundant services, such as staff related costs, accounting, Information Technology among other reasons. Mergers have strategic reasons for the business combination. These strategic reasons include: Positioning which entails taking advantage of future opportunities that can be exploited when the two companies are combined. Filling the gap a company with several short comings such as poor distribution gets support from a firm without this challenge. By acquiring human resources and intellectual capital can help improve innovative thinking and development within the company. Acquiring a foreign company can give a company quick access to emerging global markets  (Matt, 2000).

Hitt and Pissano (2004) believe M&A’s are ways by which organizations are able to compete better in changing business environment and strengthen their competitive advantage. According to Daniel & Metclaf (2001) and Schuler Jackson (2001) organizations need to find ways of becoming adaptable, flexible, profitable and efficient to maintain market share and successfully compete in the global economy today. It is believed that M&A’s can help in achieving these goals. The cause of many mergers and acquisitions has been the desire to achieve greater cost saving and revenue generating and to improve the firms overall financial and solvency position, (Cornett & Saunders, 1999). Regardless of the general objective of Mergers and acquisitions have competitive advantages.

1.1.4 An Overview of the Oil Industry

The Kenya Oil industry is comprised of multinational companies, local companies as well as independents. The major market players have been Kenya Shell, Kenol / Kobil , Chevron Kenya formerly Caltex and Total Kenya ltd . Other oil marketers like Oilibya, National Oil Corporation of Kenya, the state owned company and the independent oil marketers that have greatly intefered
with the market share. In the 1990’s it was difficult for independents to join the oil industry as it was controlled by the multinationals. Recently there has been a dramatic shift in the market share due to penetration of the independent players. Kenya has as many as 50 licensed oil marketing companies, with just six of them controlling 86 per cent of the market. These are Total, KenolKobil, Shell, OiLibya, Gapco, and National Oil. Of the two largest international firms still with a foothold in the Kenyan market, Kenol Kobil and Total Kenya, only the latter has continued to expand its downstream marketing presence. Total, which increased its retail network after merging with Chevron’s Kenyan operation in 2009, ceded some of its stations to National Oil to reduce its dominance in the market (Sambu, 2009).

1.1.5 Total Kenya Limited

Total Kenya Limited (TKL) is part of the TOTAL group, the 4th largest oil and gas marketing company in the world, with operations in over 130 countries worldwide. With a total of more than 111,000 employees and almost 17,000 service stations in the world, TOTAL is the leader in the European and African market, with a strong presence in the entire Mediterranean basin and growing in South east Asia. The group’s global businesses range from exploration and mining to refining and marketing, and is a major in the chemical sector.

TOTAL has had a long presence in Kenya. It was incorporated in 1955 as OZO East Africa Petroleum Company Limited. The name changed to Total Oil Products E.A. Limited in 1963, and in 1991 changed to Total Kenya Limited to keep with the group’s global strategy. It was the first multinational oil company to be quoted on the National Stock Exchange in 1988. Total is deeply rooted in Kenya’s economy and society, with long term investments amounting to many billions of shillings. Kenyans have a major stake in the company as its is a public listed company.
Total is one of the largest revenue generators to the Kenyan exchequer and has been a consistent leader in technical innovation, service quality and community project action.

1.2 Research Problem

The forces of globalization and technological change have created a highly competitive and dynamic business world where M&A’s are increasingly being used to seek competitive advantage and maximize shareholder value. The business climate suggests that firms must be more aggressive and competitive in order to survive. M&A have been used in developed economies as a growth strategy, when Glaxo & Smithkline Beecham merged they not only gained market share but eliminated competition between each other. Business are acquired to gain strength, expand customer base, cut competition or enter into new markets or product segments. An example of this is Ashok Leyland information technology (ALTI) was acquired by Hinduja Finance, so that it could set off accumulated losses of (ALTI) books against its profits. In order to maximize value creation it is therefore equally important to plan for selling a business as it is to acquire a business. (The Charted Accounted, 2004).

Mergers and Acquisition are an important means through which companies achieve economies of scale, remove inefficient management or respond to economic shock which is the ultimate goal of a takeover to realize synergies. Competitive advantage can result either from implementing a value-creating strategy that is not simultaneously being implemented by any current or potential competitor, (Barney, 1991) or through superior execution of the same strategy as competitors, Hofer and Schendel (1978). describe competitive advantage as “the unique position an organization develops vis-a-vis its competitors”. Competitive advantage is mainly derived from resources and capabilities. Resources have been termed “assets”, “strengths and weaknesses” and “stocks of available factors,(Amit and Shoemaker, 1993).
The extent of the return a firm can obtain from a competitive advantage, depends on the sustainability of the competitive advantage. Porter (1985) suggests that sustainability is achieved when “ad
tage resists erosion by competitive behaviour”. One objective of an overall competitive strategy is to put the organization into a position to carry out its mission effectively and efficiently, (Gold, 1991). A good strategy should integrate an organization’s goals, policies, and action sequences (tactics) into a cohesive whole, which is based on business realities. Firms enjoy some comparative advantages that arise from mergers and acquisitions such as synergy, financial and Tax benefits, diversification, market efficiencies, market power effects, management greed, obtaining a good buy, stakeholder exploration, new technology, improved market reach and industry availability.

In the year 2001 Total acquired six Elf service stations bringing the number of service stations operated by Total to 104. In the year 2009 Total Kenya Limited (TKL) acquired the assets of Chevron Kenya Limited which was in line with the company’s strategy and commitment to grow in the country Kenya. This acquisition resulted to a significant growth of TKL’s asset base from Kes 14,527 million in 2008 to Kes 31,528 million in 2009, increase in share capital from Kes 875 million to Kes 4,774 million. The increase was accounted for by issuance of 123,478,388 preference shares valued at Kes 3,900 million TKL increased the number of retail outlets from 104 in 2008 to 192 retail outlets by close of 2009. As a result TKL boasts of having the best distribution network in the country this has greatly improved the company’s market share. TKL also acquired a lubricant blending plant which it did not have previously with this TKL has managed to increase its efficiency, control the plants operating costs and blend the company’s own lubricants. Following this acquisition aviation depots were acquired pushing the sales in aviation up by 104% from 45.5 metric tonnes in 2008 to 92.6 metric tonnes in 2009. This was
mainly due to acquisition of new customers following the merger. Chevron Kenya Ltd staff moved to TKL some of the members of staff acquired had special expertise e.g. in the Sap accounting system gained because of the nature of operations that Chevron Kenya where employees were trained to have special skills by creating cross border opportunities. (Total Kenya Limited Audited Books, 2009).

Studies have been conducted on mergers, acquisitions and competitive advantage. However none of these studies has explored the use of mergers and acquisitions as a strategy for competitive advantage. Muya (2006) addresses the experiences of mergers and acquisitions, Mwenda (2009) addresses the issue of merger success, and Yash (2005) unravels the mystery on merger challenges while Dulo (2006) investigates the sources of competitive advantage. None of these studies has addressed Mergers and Acquisitions as a source of competitive Advantage. The study addressed the following questions:

Why Total made a decision to acquire the assets of Chevron Kenya?

i. Were the objectives of the merger clearly stated? If so were they achieved?

ii. What was the impact of the merger to TK? Do you think the company has an edge in doing its business as a result of the merger? Explain

1.3 Research Objective

The objective of this study was to determine the use of mergers and acquisitions strategy as a source of sustainable competitive advantage at Total Kenya Limited.

1.4 Importance of the study

This study will highlight the motive mergers and acquisitions especially as a strategy for competitive advantage. The information contained in this proposal will be relevant to the following groups.
Foreign investors as well as new market entrants who may be interested in having their business grow exponentially. This book will empower them on having a mergers and acquisitions to give them a competitive edge.

The study will also be important to governments for policy formulation in the case of Kenya the Ministry of trade and Finance which governs the monopolies act in regard to mergers and acquisitions. The policies that they formulate could attract foreign investors and vice versa. To measure growth in the country a failed merger that results to losses means lost revenue for a country.

Total Kenya ltd to measure merger success in reference to expectations that the company had in place at the time of making the decision to acquire Chevron Kenya ltd. In regard to the future of its business.

Shareholders of a company who may be uncomfortable with the fact that a company that own shares has decided to merge or make an acquisitions could find this book useful in understanding why companies merge to a greater depth. Firms or companies that could be going through cut throat competition might be interested in going through a merger to deter competition, by reading this book they will get to know what is likely to work in their favour in regards to merger and acquisitions.

CHAPTER TWO: LITREATURE REVIEW
2.1 Introduction

This chapter provides a detailed description of three main concepts namely: Mergers, acquisitions and competitive advantage. Sourcing from the findings of other studies the section further discusses Mergers and acquisitions as a strategy for competitive advantage.

2.2 Mergers and Acquisitions

A merger occurs when two or more firms combine to form one new company, (Paton et al., 2000). Mergers in a well established industry can give winning results in terms of improved efficiency and cost savings. In an acquisition, a corporation or investor group finds a target company and negotiates with its board of directors to purchase it.

The three main types of mergers are Horizontal, vertical and conglomerate. Horizontal mergers entail companies at the same stage in the same industry merge to cut down on costs, expand product offerings and reduce competition. These are the most common mergers as they focus on economies of scale. Vertical mergers entail a company buying a firm in the same industry often involved in a latter or earlier production or sales stage. Lastly a conglomerate merger brings together companies in unrelated businesses to reduce risk. This kind of mergers seek stability as they focus on combining companies whose products have different seasonal patterns or respond differently to business cycles resulting to better and more reliable sales (www.investopedia.com, 2011).

Managers seeking to maximize the wealth of shareholders of companies continually seek to exploit value creating opportunities. Firms are worth more when merged as compared to two separate entities i.e.

\[ V(a+b) > V_a + V_b \]

Where

12
A company would not engage in a merger or acquisition unless it sees an opportunity to substantially improve the return to its shareholders by better management and synergistic impact of the merger (Muya, 2006). Mergers and acquisitions have a strategic objective of improving performance of merged firms through cost savings, elimination of overlapping operations, improved purchasing power, increased market share and reduced completion.

Company growth, expansion, acquiring technology ability to acquire new markets is other merger objectives. Size is definitely an advantage when competing in the global market place, but bigger does not always mean better. However in the case of Total Kenya this has served the company well as it has enjoyed a better market share, higher demand on the stocks trading at the Nairobi stocks exchange among other benefits following the 2009 merger with Chevron Kenya Ltd formally known as Caltex.

2.3 Competitive Advantage

According to Porter (1985) a competitive advantage is an advantage over other competitors gained by offering consumers greater value, either by means of levering prices or by providing greater benefits and services that justify higher prices. Hill (2001) identifies four building blocks of competitive advantages as efficiency, quality, innovation and customer responsiveness.

Competitive advantage is the single and most powerful weapon needed by firms to win and prosper in today’s hypercompetitive world (Dulo, 2006). As a lethal weapon, competitive advantage enables firms enjoy unassailable position in the market (Robert, 2000). Porter (1985) argues that competitive advantage can help firms erect entry barriers through economies of scale, proprietary products, synergistic alliances and expected retaliation. Cut throat competition which is virtually present in all markets and industries across the globe is mainly driven by
multifaceted forces such as globalization, liberation, overcapacity in many industries, deregulation, privatization and new technology (Manning, 1998). Competition from all corners of the world is unlikely to slaken but intensify in this and the next century (Kotter, 1996).

Competitive advantage being a unique position that a firm develops in comparison to its competitors can with good plan assist in protecting the market against new entrants or small local rivals. The use of competitive advantage to help realize corporate goals only delivers the results when well understood in the organization. Porter (1985) states clearly that competitive advantage should be seen in terms of discrete activities a firm performs in designing, producing, marketing, delivering and supplying its products and services. Industry leaders are consequently building their competitive advantage through collaboration, mergers, customer relationship and loyalty programs (Naragandas, 2005). Firms of all sizes need to see competitive advantage as an integral part of ensuring long term survival and prosperity. Creating competitive advantage is dependant of having the right source of competitive advantages which can be within or without the firm.

2.4 Mergers and Acquisitions as a source of competitive advantage

A new economic business climate suggests that firms must be more aggressive and competitive to survive harsh economic times (Milman, D’Mello, Aybar, & Arbalaez, 2001). Foreign direct investment in the form of mergers and acquisitions is often an effective way of competing in a tough global environment. There are a lot of reasons why companies may opt to go through a merger and acquisition. However the most general and obvious reason is the fact that the purchasing firm considers the acquisition to be a profitable investment. These factors provide a firm with competitive advantages as detailed below;

Firms enjoy economies of scale efficiencies when they combine their operations through mergers and acquisitions to reduce production costs, increase output, improve product quality, obtain new
technologies and introduce new products. Potential economies of scale and efficiencies result from both managerial and operational efficiencies. Operational efficiencies may arise from economies of scale, improved resource allocation, more resources, and better technology in the production phase.

Managers believe that together they could achieve objectives far more effectively than would be possible if they were separated. Synergy occurs in elimination of duplicate staff, departments and combining sales forces and distribution systems. Ball and McCulloch (1996) illustrate that mergers and acquisitions take place when a firm is faced with expanding global competition, growth in research related costs and product development as well as growth e.g. penetrating into new markets. As emphasized in Porter (1980) competitive advantage starts from cost advantage to product differentiation.

Cost efficiency is the magic force that allows for enhanced cost efficiencies of the new firm after a firm goes through a merger and acquisitions. This takes the form of revenue enhancement such as cost efficiencies. Reduction in the number of staff- after mergers take place repeated roles in staff positions are likely to occur as a results companies tend to restructure and job losses occur. This leads to reduction to costs associated with staff (Pautler, 2001).

The need for diversification is one of the reasons that firms make decisions to undertake mergers and acquisitions. Diversification enables firms reduce risks as combined firms risks is less than the weighted average of the risks of the two firms prior to the merger. Firms merge to become more diverse, gain market share and penetrate new markets (Sekaran, 1992). Mergers enable firms reduce competition to manage interdependence with sources of input/output (Pfeffer, 1972b). Both firms no longer compete but now compete more effectively with other firms (Yash, 2005).
Financial efficiencies may arise especially if a firm opts to diversify their earnings by acquiring other firms with different income streams. This lessens variation in profitability reducing risk of bankruptcy. When one firm has made losses and the other profits, the loss making company pays no taxes, while the tax burden of the second firm will be smaller if the firms merge hence the aggregate net profit will lead to a lower tax liability. In cases of increased borrowing the merged firms enjoy the tax liability because of debt in tax deductible expenses. This in return helps increase profits as well as value of shares of the firm (Yash, 2005). A market power effect occurs automatically as a merger calls for a higher market share making the new firm the market leaders (Pautler, 2001).
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the data that was used in the study, the data source, the research design used, the study population and the methods that were used to analyze the data.

3.2 Research Design
The study was a case study of Total Kenya Ltd which allowed me the gathering of in-depth information about the how the company uses Mergers and Aquisitions as a strategy to gain competitive advantage. Case studies provide in-depth information on the subject under study and are qualitative in nature hence provide an efficient way of collecting data, analyzing information and reporting the results (Ruoro, 2010).

3.3 Data collection
The study relied both on primary and secondary data for this study. Primary data was obtained through personal interviews which were guided by an interview guide administered by the researcher. The primary data obtained were qualitative in nature. According to Cooper and Schindler (2003) personal interviews obtain in depth information as the researcher can paraphrase the questions as necessary, clarify doubts and ensure that the responses are properly understood by repeating or rephrasing the questions thus improving the quality of information received. Additional questions can also be asked to supplement the information collected. The interviews were conducted on the management team of TKL this managers represent different functional areas of the company in an effort to capture the different roles that managers in different departments played which were an eye opener on the competitive advantage that TKL enjoys.
Secondary data was used to supplement primary data. The source of my secondary data was TKL’s audited Books, Energy regulatory Commision (ERC), Petroleum Institute of East Africa (PIEA) and the Ministry of Energy. This data was quantitative in nature basically show statistical performance of TKL and other companies in the oil industry in terms of sales, market share, effect on the share price, demand on the shares among other advantages highlighted the effects of M&A’s to TKL and assess the competitive advantage that the company has been enjoying.

3.4 Data Analysis

Data analysis was done by evaluating, categorizing testing and combining both quantitative and qualitative data. This involved thorough reading and editing data which were then analyzed by use of content analysis to arrive at analytical conclusions. The data collected were both quantitative and qualitative in nature, the researcher used content analysis based on the experiences of the individual participants together the data collected. Cooper and Schindler (2003) noted that content analysis can be used as a tool for handling open ended questions as it measures the semantic content of the ‘what’ aspect of a message. Its breadth makes it a flexible and wide ranging tool that may be used as a methodology or as a problem specific technique.
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The research objective was to establish the use of mergers and acquisitions as a strategy for competitive advantage by Total Kenya limited. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Data analysis

The respondents comprised the managers in Total Kenya limited. In total, the researcher interviewed all the six targeted respondents. All the respondents interviewed had university degrees with four of them having a Masters degree as well. With such academic and professional background the respondents were deemed to be capable to analyze and respond appropriately to the use of mergers and acquisitions as a strategy for competitive advantage. The work experience for the respondents ranged from two to fifteen years although four of the respondents had worked in the organization for over eight years and therefore they understand the organization well. With this background, it was felt that the respondents were knowledgeable enough on the research subject matter and thus of help in the realization of the research objective.

4.3 Findings of the study

This section aimed at establishing from the management of Total Kenya whether they achieved competitive advantage through the acquisition of Chevron Kenya. The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like
mergers and acquisitions, strategic alliances, joint ventures etc. The mergers and acquisitions are arguably the most popular strategy among firms who seek to establish a competitive advantage over their rivals. The exit of one of the company’s rivals in the oil industry presented TKL with a perfect opportunity to acquire Chevron Kenya so that they can become market leader in Kenya and make a clear gap between the other marketers, increase its market share thus improving its distribution network, acquisition of stations which were located in strategic and profitable areas where the company does not have stations, so that they can acquire synergies and economies of scale, so as the company can acquire the Lubricants Blending Plant with a view of increasing sales in the lubricants sector which is highly profitable and also for business growth. The acquisition of the company was strategic to TKL as they increased their market share from 19.6% to 27.6% and these has enabled the company to increase its profits to Kshs 916,205 million. The increased profits has also translated to increased shareholder value and these has resulted to the continuous appreciation of the company’s share value in the stock market as more investors acquire the shares so that they can be reap the benefits of high investor returns.

The objectives of the merger were clearly stated as TKL was not doing well in different fronts and the intended exit of Chevron from the Kenyan market presented the company with a perfect opportunity to negotiate for a merger so that they can increase their scope of operations and challenge the market leaders. The objectives of the merger were to acquire Chevron service stations located in strategic and profitable areas where TKL stations were nonexistent, to acquire additional storage for LPG and the Lubricants Blending Plant which the company did not have and so that the company can have synergy. The difference in the strategic objectives was that TKL intended to acquire an already established facility as opposed to construction of new ones and also competition from other marketers who wanted to acquire the company increased the
need to move fast and agree on how much to pay the company. The achievement of the desired objectives required a combination of factors so that the strategy does not fail. As the acquisition of the company required a large capital, TKL financed the acquisition through a loan from local financiers, through retention of key ex-Chevron staff via persuasion thus enabling the locking in of customers and ensuring smoother transition and the stoppage of production services outsourcing as TKL can now provide the same services like the blending plant to competitors.

All the respondents were in agreement that the acquisition of Chevron Kenya, by the company has resulted to the company being more competitive as the company has been able to expand its network coverage to areas where they had no service station thus increasing its market share which they have used to ensure that they reap the benefits of the heavy investment which they made, they have attracted more customers as they improved the quality of services which they offer to the customers, since the acquisition of the additional storage for LPG and lube blending plant the company is able to offer services which they were not offering and they are profitable and the synergies emanating form the merger. The company however had to deal with challenges like teething problems associated with the management of the bigger merged company were not well handled leading to serious dissatisfaction by some customers, the problems involving mostly the general inability to effectively manage the increased demand and the company not fully harnessing the experience (human capital) they acquired and the conflicts as a result of different viewpoints (due to different organization cultures) still exist with the result that the merged organization being not united as it should be. Also, the acquisition costs (loans) continue to weigh total Kenya down.

The authority to acquire the company was sought from the shareholders of the company and the expectation was that the performance of the company would improve which. Their expectations
were achieved as the company market share prices have increased, overall business performance is also increasing and the company’s returns also improved tremendously. The operating environment of the company has affected the performance of the company in the recent past as the inflation and hard economic times (including payment of a huge loan borrowed by TKL to purchase Chevron from its parent company), decision making being slow and the implementation of the agreed decisions taking longer to be implemented and the price capping formula which came into effect at the end of year 2010 has reduced the profitability of the company.

The respondents also noted that they believe that mergers and acquisitions are great business strategy to achieve competitive edge as it leads to economies of Scale which is achieved by selling more of the same product, economies of scope resulting from sharing resources common to different products, better control of costs and thereby improve profit margin, increased entry barriers to potential competitors, if the firm can gain sole access to a scarce resource, increased dependability of the supply or quality of raw materials used as production inputs and improve the predictability of demand for its output through forward vertical integration. The competitive edge can only be achieved after due care and skill needs have been exercised to get deals at the best possible prices and the need for well planned and executed with great diligence so that the integration delivers the benefits sought.

The competition prevailing in the current operating business environment necessitates the adoption of business strategies which will ensure that the company competes effectively with other competitors. Mergers and acquisitions will form a greater part of modern business in Kenya since many small businesses will have to merge in order to achieve economies of scale and bring down the unit cost of production/service delivery. This will enable them reach to a
bigger market audience and pool of resources, more working capital, leverage on technology, innovation, brand, and skills. Mergers and acquisitions will continue to increase as firms seek to grow not only in market share, but also to increase their expertise in a short time as has been witnessed by the recent acquisition of small firms by Safaricom with Seven Seas being the latest. As always, mergers and acquisitions are a good way to increase shareholder returns but should be carefully thought out to avoid disaster.

Although mergers and acquisitions will form part of the business world in the coming years, the management of the companies and the staff need to be enlightened on the progress of the process to avoid skepticism and suspicion. Involvement is paramount as it motivates the employees. The mergers and acquisitions can however lead to failure if not well managed, creates monopolies, poor quality of products and services, increased bureaucratic costs and may lead to higher costs due to low efficiencies resulting from lack of supplies competition.

4.5 Discussion of the findings

In today's fast-changing competitive environment, firm’s competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management. The findings from the study were that TKL acquired Chevron Kenya for strategic reasons and this was in tandem with Matt (2000) who intimated that mergers have strategic reasons for the business combination. These strategic reasons include: Positioning which entails taking advantage of future opportunities that can be exploited when the two companies are combined. Filling the gap
a company with several shortcomings such as poor distribution gets support from a firm without this challenge. By acquiring human resources and intellectual capital can help improve innovative thinking and development within the company.

Further, for the strategies adopted to effectively achieve the firm’s objectives, the plans and actions must be strategically fit to the complexities and dynamism of a rapidly shifting environment. This need was evidenced in the case of TKL where it was found out that the company achieved competitive advantage over its competitors after the acquisition of Chevron. This was highlighted by Porter (1985) who states clearly that competitive advantage should be seen in terms of discrete activities a firm performs in designing, producing, marketing, delivering and supplying its products and services. Industry leaders are consequently building their competitive advantage through collaboration, mergers, customer relationship and loyalty programs.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study was aimed at establishing whether the use of mergers and acquisitions strategy is a sustainable source of competitive advantage at Total Kenya Limited. This chapter presents a discussion of the findings of the study and makes appropriate recommendations regarding adoption of the strategy among companies.

5.2 Summary of the study

The study shows that all the respondents had university degrees with four of them have masters degree as well. The respondents also understood the company quite well as they had worked in the company for over eight years. It was found out that TKL acquired Chevron Kenya so that they can become market leader in Kenya and make a clear gap between the other marketers, increase its market share thus improving its distribution network, acquisition of stations which were located in strategic and profitable areas where the company does not have stations, so that they can acquire synergies and economies of scale, so as the company can acquire the Lubricants Blending Plant with a view of increasing sales in the lubricants sector which is highly profitable and also for business growth. This strategy resulted to the achievement of some of the intended objectives by the company.

The objectives of the acquisition of the company were clearly stated and therefore TKL had its facts correct when they were pursuing the strategy as it has led to the company having increasing their scope of operations through the acquired service stations which are located in strategic and profitable areas where TKL stations were nonexistent and the acquisition additional storage for LPG and the Lubricants Blending Plant which the company did not have and so that the
company can have synergy. The achievement of the acquisition objective required a combination of all resources and the intended objective was achieved by loan from local financiers, through retention of key ex-Chevron staff via persuasion thus enabling the locking in of customers and ensuring smoother transition and the stoppage of production services outsourcing as TKL can now provide the same services like the blending plant to competitors.

The acquisition of the company has resulted to TKL being more competitive as it has been able to expand its network coverage to areas where they had no service station thus increasing its market share which they have used to ensure that they reap the benefits of the heavy investment which they made, they have attracted more customers through improved quality services which they offer to the customers, since the acquisition of the additional storage for LPG and lube blending plant the company is able to offer services which they were not offering and they are profitable and the synergies emanating from the merger. The acquisition of the company has resulted to increased share prices of the TKL, the business performance of the company has also improved although the company has to deal with challenges that comes as a result of organizational expansion which results to slow decision making. The price capping formula which came into effect at the end of year 2010 and the repayment of the loan borrowed to purchase Chevron has reduced the profitability of the company.

Mergers and acquisitions is a great source of business strategy as it can enable an organization to have a competitive edge on economies of Scale which is achieved by selling more of the same product, economies of scope resulting from sharing resources common to different products, better control of costs and thereby improve profit margin, increased entry barriers to potential competitors, if the firm can gain sole access to a scarce resource, increased dependability of the
supply or quality of raw materials used as production inputs and improve the predictability of demand for its output through forward vertical integration.

5.3 Conclusion

From the research findings, some conclusions can be made about the study:

The mergers and acquisitions are arguably the most popular strategy among firms who seek to establish a competitive advantage over their rivals due to their changing operating environment brought by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. From the findings, it was established that TKL was not doing well in the industry and therefore the exit of Chevron Kenya provided the company with a chance to acquire the company so that they can improve their performance and increase their market share. The acquisition of the company has led the company to achieve its intended objectives and these have led to the company’s improved returns to its shareholders. In addition, the acquisition has led the company to be more competitive in the market.

In mergers and acquisitions, only synergistic combination and integration of sets of resources form competitive advantage. According to this view, a company's competitive advantage is derived from its ability to assemble and exploit an appropriate combination of resources by developing existing and creating new resources in response to rapidly changing market conditions. Therefore mergers and acquisitions are justifiable as it leads to economies of scale which is achieved by selling more of the same product, economies of scope resulting from sharing resources common to different products, better control of costs and thereby improve profit margin, increased entry barriers to potential competitors, if the firm can gain sole access to a scarce resource, increased dependability of the supply or quality of raw materials used as production inputs and improve the predictability of demand for its output through forward vertical integration.
5.4 Recommendations

The study established that the purpose of TKL acquiring Chevron was to increase its market share, improve distribution network and acquire service stations which was located in strategic positions. However these has not translated to increased company performance as it recently issued a profit warning and therefore it is recommended that the management of the company evaluates its operations to ensure that they translate the increased network and distribution to improved organizational performance.

Secondly, it was established that the encounters challenges which results from management of bigger merged company, dissatisfaction by some customers, inability to effectively manage the increased demand and the company not fully harnessing the experience (human capital) they acquired and the conflicts as a result of different viewpoints. It is therefore recommended that the management of the company looks into the causes of the dissatisfaction of the customers and come up with strategies to address increased demand so that they can satisfy their customers’ needs which in turn improve the performance of the company. At the same time they should ensure that the human resource which was acquired from Chevron are interacted into the company so that they all work towards achievement of the company’s objectives.

Lastly, the study established that mergers and acquisitions are great business strategies for gaining competitive advantage but only after thorough planning and execution have been with great diligence so that the integration delivers the benefits sought. It is therefore recommended that the management of the company should ensure that their company does not join the list of the mergers and acquisitions which have failed due to poor execution of the strategy.
5.5 **Limitations of the study**

The targetted group for the research was top management, constituting the managing director and departmental heads. The managing director who spearheaded the change process was not available to give his views and opinions, as he had left Total Kenya for other roles within Total group. The findings of the research were collected from departmental heads and where some heads were not available the representatives were interviewed.

5.6 **Suggestions for Further Research**

The study confined itself to the use of mergers and acquisitions as a strategy for competitive advantage. There are however challenges which affect performance of the mergers and acquisitions and therefore further studies should be done on the challenges affecting performance of the mergers and acquisitions.
APPENDIX I: INTERVIEW GUIDE

QUESTIONS

1) In your opinion why did Total Kenya make the decision to acquire Chevron Kenya?

2) Do you feel that the objectives of the merger were clearly stated? What were these objectives and how did they differ from any other strategic objective?

3) How did Total Kenya achieve these objectives?

4) In your experience has Total Kenya been more competitive as a consequence of the acquisition of Chevron Kenya?

5) What has this acquisition meant for the shareholders, market share and overall business performance?

6) In your opinion do you believe that mergers and acquisitions are great business strategy for a firm to gain competitive edge in business?

7) How do you see the future of strategy of mergers and acquisitions in modern business in Kenya?

8) What else can you comment or suggest on the area of Mergers and Acquisitions?
REFERENCES


