RELATIONSHIP BETWEEN DYNAMIC CAPABILITIES AND OPPORTUNITY EXPLOITATION BY PETROLEUM IMPORTING AND MARKETING COMPANIES IN KENYA

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DECLARATION

This research project is the result of my independent study ad has not been submitted for a degree in any other university

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

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DEDICATION

I dedicate this project to my loving mum whose softly spoken words kept encouraging me into pursuing more of higher education. Her creation of enabling environment, financial support ensured my courses of choice were completed on time exceeding my expectation. To my sisters, you were always my backup in times of need. I pray that God’s blessings flow your ways all the time.

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I thank God for the strength that he kept in me during the entire period. My Supervisor, Dr. J. Maalu whose guidance, dedication, patience, persistence and commitment made the dream of completing this project a success. Kindly accept my sincere gratitude.

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ABSTRACT

High demand of petroleum products, price volatility, increased competion and stringent regulatory requirements bring market dynamism in the petroleum industry and require quick responses in matching the firm's resource and capability portfolio with environmental opportunities.Petroleum importing and marketing firms in Kenya due to the dynamic environment in the industry, need to integrate, build, structure and reconfigure internal and external competences by generating multiple sustained competitive capabilities simultaniously with the changing, government regulations, demand levels and consumer perception international price levels.The objectives of this study were to determine the dynamic capabillities developed by the petroleum importing and marketing companies in Kenya; to establish the relationship between the dynamic capabilities and opportunity exploitation by the petroleum importing and marketing companies.Data was collected through questionnaires from a population of 42 Petroleum marketing and importing companies and was analyzed quantitatively. The findings of the study indicate that organizational skills & resources, process integration and financial position satisfactorily contributed to exploitation of existing opportunities. While, Knowledge creation process, technology, integrative strategies, scenario process, collaboration network, leveraging capability, contribution were above average in opportunity exploitation contribution. Organization reengineering, external integration of capabilities and linkage with external firms were just averagely contributing to exploitation existing opportunities. The dynamic capability activities that most petroleum importing and marketing companies greatly implemented were, integrating resources, leveraging knowledge, Market positioning, Networking and information gathering. The study concluded that the petroleum importing and marketing companies had knowledge, resources and capability transformation, market analysis and opportunity identification and seizing capabilities which contributed to opportunity exploitation. The capabilities are related to opportunity exploitation but high dynamic capability level did not measure directly to opportunity exploitation. The critical challenges that hindered satisfactory contribution to exploitation of opportunity were; scanning the environment for opportunities and threats, resource allocation, knowledge sharing, reconfiguring resources, exploiting opportunity, adaptation to competitive environment and market analysis. It is recommended that while considering factors for dynamic capability development; the actors, strength, weakness, opportunities and threats, existing skills, process and structure, core competence and capabilities, adaptation to competitive environment and the opportunities should be given high priority. To enable achievement the level of capability required to have a leveraged competitive advantage as the petroleum companies exploit the opportunities in the dynamic market.

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LIST OF ABBREVIATIONS & ACRONYMS

CEO	Chief Executive Officer
EAI	Energy Information Administration
ERC	Energy Regulation Board
GOK	Government of Kenya
KBV	Knowledge Based View
KIPPRA	Kenya Institute of Petroleum Production and Research
KPC	Kenya Pipeline Corporation
KPRL	Kenya Petroleum Refineries Ltd
LPG	Liquefied Petroleum Gas
MBV	Market Based View
NOCK	National Oil Corporation of Kenya
OMC	Oil Marketing Companies
OSMAG	Oil Spill Mutual Aid Group
RBV	Resource Based View
SWOT	Strength Weakness Opportunities Threat
TOWS	Threat Opportunities Weakness Strength

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Dynamic capabilities refer to the firm's processes that use resources to match and even create market change; thus, the organizational and strategic routines by which firms achieve new resource configuration as markets emerge, collide, split, evolve, and die (Eisenhardt and Martin, 2000). The concept of dynamic capabilities arose from a key shortcoming of the resource based view of the firm to explain how companies fulfill two seemingly contradictory imperatives (Teece, Pisano, & Shuen,1997). They must be both stable enough to continue to deliver value in their own distinctive way and resilient and adaptive enough to shift on a dime when circumstances demand it. Dynamic capabilities are valuable in virtually all levels of environmental turbulence, implying that managers must continously try to identify new opportunituies and make decisions to reconfigure their existing operational capabilities, irrespective of the level of environmental turbulence (Pavlou and Sawy, 2011). Successful entrepreneurs gain advantage because they have the ability to recognize opportunities, or situations where the potential exists for resources to be creatively deployed in a more efficient and or effective manner (Kirzen, 1997).

Dynamic capability claim in its intellectual heritage the resource - based view of the firm (RBV) and the knowledge –based view of the firm (KBV) (Teece et al., 1997). RBV suggest that resource position barriers (Wernefelt, 1984) or resource endowments can lead to competitive advantage where firm's resources are valuable, rare, imperfectly

imitable, and non-substitutable (Barney, 1991). KBV suggest that increase in knowledge can increase productivity independently of other inputs (Penrose, 1959) and that organizations knowledge resources grow through the recombination of existing capabilities and the exchange of knowledge within and external to the firm (Kogut & Zander, 1992). Unfortunately, the concept of dynamic capabilities, like the RBV, has not prevailed over such definitional issues (Wang and Ahmed, 2007). The resource transformations during the adjustments will be theoretically framed from the Resource-based view (RBV), Knowledge-based view (KBV) and market based- view (MBV).

The Petroleum industry in Kenya has mainly been influenced by change in legal and regulatory frame work that occurred after deregulation in 1994. This led into the increase in the number of new firms into the industry and has since intensified competition especially at the retailing level (Muthama, 2008). In the petroleum sector, environmental and industry factors change very rapidly that's necessitating frequent review of milestones and thorough strategic monitoring (Chege, 2012).The high demand of petroleum products, price volatility, increased competion and stringent regulatory requirements bring market dynamism in the petroleum industry require quick responses in matching the firm's resource and capability portfolio with environmental opportunities.

1.1.1. Dynamic Capabilities and Opportunity Exploitation

A company's strategy is not complete until company managers have made strategic choices about how the various functional parts of the business will be managed in support of its basic competitive strategy approach and the other important competitive moves

being taken (Thompson, Strickland & Gamble, 2005). Dynamic capabilities are capabilities that help units extend, modify, and reconfigure their existing operational capabilities into new ones that better match their changing environment (Winter 2003). Pavlou and Sawy (2011) drawing upon the dynamic capabilities literature, identified a set of capabilities – scanning the environment, learning, coordinating, and integrating that help reconfigure existing operational capabilities into new ones that better match the environment.

Since 1990s relentless competition has driven firms constantly to adapt, renew, reconfigure and recreate their resources and capabilities in line with the competitive environment (Wang and Ahmed, 2007). Eisenhardt and Martin, (2000), argue that Dynamic capabilities are necessary, but not sufficient, conditions for the competitive advantage. Dynamic capabilities can be used to enhance existing resource configurations in the pursuit of long-term competitive advantage (RBV's logic of average).They are however, very frequently used to build new resource configuration in pursuit of temporary advantages (logic of opportunity).

The existence of common features among effective dynamic capabilities does not, however, imply that any particular dynamic capability is exactly alike across firms. Take for example knowledge creation process, a crucial dynamic capability especially within high–technology firms. A common feature across successful creation process is explicit linkage between local firm and knowledge sources outside the firm (Eisenhardt and Martin, 2000). Simple routines keep managers focused on broadly important issues without locking them into specific behaviors or the use of past experience that may be

inappropriate given the actions required in a particular situation (Eisenhardt & Martin, 2000).

1.1.2. Petroleum Industry in Kenya

The Petroleum industry in Kenya was established way before the country acquired its independence from its colonial masters in the early 1960s. Pre and Post independence up to 1994 the petroleum industry operated in a highly regulated environment from the government and the firms were mainly multinationals oil companies operating like monopolies through cartels. Change in legal and regulatory frame work occurred after 1994 deregulation leading to increased new entrants into the industry and intensified competition especially at the retailing level. Petroleum fuels constitute the main source of commercial energy in Kenya. Kenya is a net importer of petroleum products and has a refinery owned and managed by the Kenya Petroleum Refineries Ltd (KPRL), and an 800 km cross country oil pipeline from Mombasa to Nairobi and Western Kenya with terminals in Nairobi, Nakuru, Eldoret and Kisumu, run by the Kenya Pipeline Company (KPC) (GoK:, 2014).

The oil importing and marketing companies comprising of five major companies namely Shell, Total, Kenol/Kobil, Oil Libya, Chevron, and other emerging oil companies which include the Government owned National Oil Corporation of Kenya (NOCK). The sector has three divisions, upstream, mid stream and downstream and has since seen a lot of growth and improvements in quality and level of service. (GoK., National Energy Policy, 2013). Petroleum products are transported from Refinery or Kipevu oil storage facility (KOSF) via KPC, railway tankers or road tankers. The pipeline was considered the safest

means of getting the products from Mombasa but does not get the product to its retail outlets. Road tankers are convenient and faster for short distances and are the only means in areas not served by pipeline (KIPPRA, 2010).

As at March 2013, there were 53 OMCs licensed to import and market petroleum products in Kenya. The licensing criteria have been simplified to facilitate the entry of indigenous traders in the oil business but it is still largely oligopolistic with 80% being controlled by the multinational Oil Marketing companies (GoK., 2013). A new criterion for licensing petroleum marketers passed in July 2013 requires OMCs to show proof that they own at least 5 licensed retail stations which are operational, and or a licensed depot not under lease; or have acted in the Kenyan Market as whole sellers and have sales volume of about 2 million litres per year Gitonga (2014). Before licence renewal OMCs are required to be members of Oil Spill Mutual Aid Group (OSMAG).Compliance to transport and storage agreement are a prerequisite to license renewal for KPC facilities users. ERC has given new companies a grace period of 3 to 6 months to monitor their alignment with the required obligations while renewals have a grace period of 6 months.

Globally the petroleum industry faced petroleum price volatility, rapid demand variation and erratic supply effects. According to Energy Information Administration (EIA) growth in petroleum liquids will mainly be driven by a combination of factors including evolution in the transport, industrial and power sectors as well as policy re-alignment. With the dynamics in the macro environmental factors (political, regulations and economical) and the actors. The cost of transportating petroleum remains high escalating

cost of operations across the supply chain especially to the smaller firms that might not enjoy the economies of scale, impacting on operational performance and the firms competitive disadvantage. Stocks kept by oil dealers were in most cases determined by the financial size of the firm and its storage capacity. Small enterprises would not have the financial ability to buy and keep large stocks for the same reasons (KIPPRA, 2010).

The market is dynamic and resources, firm's processes, and transformation of core competences into dynamic capabilities are a necessity in view of the changes in market demand regulations and increase competition. Dramatic cost advantages can emerge from finding innovative ways to eliminate cost by controlling cost drivers and reconfiguring value chain activities like making greater use of internet technology for reengineering industry value chain. Dynamic capabilities in sensing and seizing opportunities and quickly can help the Petroleum industry survive the dynamic environment.

1.2 Research Problem

Dynamic capabilities help units extend, modify, and reconfigure their existing operational capabilities into new ones that better match their changing environment (Winter 2003). Global competition, technological advances and changing needs of consumers, competitive paradigms are driving firms to compete, simultaneously along different dimensions such as design and development of products, manufacturing, distribution, communicating and marketing (Garg, Desh, & Singh, 2008). The pattern of effective dynamic capability depends upon the market dynamism. Dynamic markets therefore require effective dynamic capabilities relying heavily on existing knowledge (Eisenhardt and Martin, 2000).

Petroleum importing and marketing firms in Kenya due to the dynamic environment in the industry as already cited in the background, need to integrate, build, structure and reconfigure internal and external competences. They need to generate multiple sustained competitive capabilities simultaniously with the changing, government regulations, demand levels and consumer perception international price levels. Internal integration(internal communication, intergrative strategies, job training, process integration, organization reengineering) and external integration (external communication and network of collaboration) of capabilities.

Boccardelli and Magnusson(2006), study on dynamic capabilities in early- phase entrepreneurship on mobile internet industry. The study underlined the importance of entrepreneurs to balance the striving for distinctive capabilities that provide competitive advantage, and the experimentation and improvisation needed to adapt to changes in the market, but considered mostly technology aspect of the dynamic capability. Ngeera (2013) studied the application of dynamic capabilities approaches in commercial banks in Kenya and recommended a further research on other institutions, that experienced bad results in their dynamic capability approaches and those that had disastrous approach.

Muthiani (2008), indicated that oil companies needed to exploit the gains of differentiation by investing on attributes valued by customers and noted that oil marketers needed to strike a balance between quality of product and price; Livohi (2012), study on downstream supply chain performance measurements recommended that OMCs should make their organizational systems and supply chain process flexible to ensure positive

changes that arise from performance metrics, can be adopted in the downstream supply chain operations. Studies on petroleum industries in Kenya did not focus on dynamic capabilities; this study intends to close the gaps in the previous studies and the following questions are therefore asked; what dynamic capabilities are developed by the petroleum marketing companies in Kenya? What are the relationships dynamic capabilities related to opportunity exploitation by Petroleum marketing in Kenya?

1.3 Research Objective

The main objective of this study is to establish the relationship between dynamic capabilities and opportunity exploitation by Petroleum importing and marketing companies in Kenya.

The following are the specific objectives of the study:

i. To determine the dynamics capabilities developed by the petroleum companies in Kenya.
ii. To establish the relationship between the dynamic capabilities and opportunity exploitation by petroleum companies in Kenya.

1.4 Value of the Study

To academicians the derived conclusions will form a source of criticism and further research study will be conducted on the basis of these report findings. This will build further on dynamic capability literature.

The industry analysis carried out on the OMCs will expose strong and weak points in the prevailing strategies and enable the firms to know how attractive or unattractive their individual firms competitive position is and why.

The policy makers will understand on how to craft a strategy that is well suited to the dynamics in Petroleum industry and draw conclusions on the weaknesses and strengths of their regulations and to know whether their rules suppress or promote trade.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical basis of dynamic capabilities and opportunity from the resource- based theory, knowledge -based theory and market-based view. The chapter covers also dynamic capabilities and development, Market dynamism and opportunities, link between dynamic capabilities and opportunity exploitation, and empirical review.

2.2 Theoretical Basis of Dynamic Capabilities and Opportunity

Concurring with (Teece et al., (1997), in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment', Eriksson,(2013) adopted the definition of Teece (2007) and asserts that dynamic capability concept is therefore multidimensional (Eriksson, 2013) as shown in figure 1.

The market dynamism brings with it opportunities and threats. The firms with dynamic capabilities sense and seize sustainable development opportunities so as to achieve competitive advantage & improved performance through transformational activities on resources and capabilities. The management of a firm is able to exercise strategic control ensuring the company is pursuing its best opportunities with respect to markets, products and channels (Kotler, 2013).

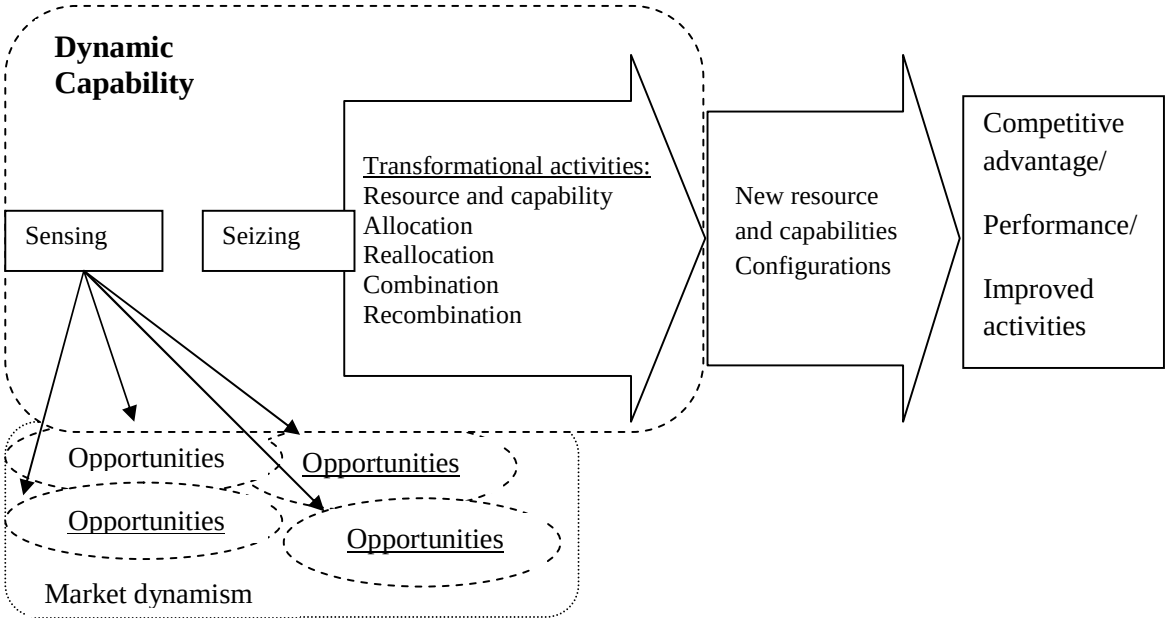

Figure 1. Dynamic capabilities framework adapted from "Methodological issues in Dynamic capabilities research- acritical review" (Eriksson, 2013)

The framework was adapted in this study to indicate the linkages that dynamic capability and opportunity exploitation have to competitive advantage and performance. Essentially the key to entrepreneurial success lies in spotting sizable opportunities in the objective sense and perceiving these opportunities as accurately as possible.

2.2.1 Resource- based View

The resource- based view (RBV) represents a substantial shift in emphasis towards the individual resources of the organization and away from the market - driven view. Despite its recent popularity, the concept of resources and capabilities emerged from research into diversification. A resource is a basic element that a firm controls in order to best organize its processes. From RBV perspective the firm is regarded as a unit; a single organized

group of heterogeneous assets that is created, developed, renewed, evolved and improved with the passage of time (Lo'pez, 2005). The heterogeneity in the firm's assets appears as the central factor in explaining varying performance between one firm and another (Lo'pez, 2005).

A resource or set of resources can be used to create competitive advantage. The sustainability of this advantage depends upon the ease with which the resources can be imitated or substituted (Peteraf, 1993). When resources are combined they can lead to the formation of competencies and capabilities (Prahalad and Hamel, 1990). RBV suggest that resource position barriers (Wernefelt, 1984) can lead to competitive advantage where a firm's resource is valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991).

2.2.2 Knowledge based view

Knowledge is defined as a mixture of experiences, practices, traditions, values, contextual information, expert insight, and sound intuition that provides an environment and framework for evaluation and incorporating new experiences and information (Harrington, 2005). There are two types of knowledge explicit and tacit: Explicit knowledge is stored in semi-structured content such as documents, email, voicemail, or video media Harrington, (2005) calls ' hard or tangible knowledge. It is coveyed from one person to another in a systematic way. Tacit knowledge is defined as knowledge that is formed around intangible factors in individuals eperience. The ability to create value is

not based as much upon physical or financial resources as on a set of intangible knowledge- based resources (Lo'pez, 2005).

Knowledge management is a proactive, systematic process by which value is generated from intellectual or knowledge based assets and dissemination (Harrington, 2005). One of the biggest challenges related to implementing a knowledge management system is transferring knowledge, into a consistent format that can be easily shared within the organization. The key knowledge management activities in the company are concerned with carrying out the following eight activities; creation, acquisition, capture, assembly, sharing, integration, leverage, and exploitation of (new) knowledge.

2.2.3 Market based view

Teece, Pisano, & Shuen, (1997), refer to dynamic capabilities as the firm's ability to integrate, build upon and reconfigure internal and external organizational resources and functional competences to deal with the environment which is constantly evolving. In there defination,Wang and Ahmed (2007) concurs with Teece et al.,(1997) in defining dynamic capability as a firm's behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantages. Barreto (2010) in summarized dynamic capability as the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decision and to change its resource base". Given the mixed use and interpretation of terminologies, the definitional issues of dynamic capabilities Wang and Ahmed (2007), attempt to reconcile the concept

of dynamic capabilities cited that it is intrinsically linked to market dynamism (Wang and Ahmed 2007).

The conceptualization of dynamic capabilities encompasses market dynamism as an influential factor for firm capability development and evolution (Eisenhardt et al. (2000). A dynamic market environment can be caused by a leading factor or combination of several factors, including industry. Wang and Ahmed (2007) , suggest that dynamic capabilities as an emerging concept, need to be examined in an integrated framework incorporating the antecedents and consequences. Building dynamic capabilities relates especially to the environmental and technological sensing apparatus that the firm has established the choice of organizational form and the ability to strategize Companies with strong strategic positions have more options and a higher probability of success in times of turmoil. This is because the returns of market leaders are not only higher than those of market followers, they are also more stable.

2.3 Dynamic Capabilities

Whereas managers identify the desired competencies and capabilities in the course of crafting strategy, good strategy execution requires putting the desired competencies and capabilities in place, upgrading them as needed and then modifying them as market conditions evolve (Thompson et al., 2005). Teece et al., (1997), emphasized the key role of managers in appropriately adapting, integrating, reshaping organizational skills and resources as well as internal and external functional competences resources, and functional competences but Wang & Ahmed (2007), caution that managers must not evaluate dynamic capabilities as a stand alone. Instead, the change trajectory in the

external environment, the firm's historical and current strengths and weaknesses, its long-term strategic orientation and its product-market positioning must be considered simultaniously in order to channel its resources effectively towards capability development. Lo'pez,(2005), looked at dynamic- capabilities view as having a central role to play in the analysis and interpretation of complex organization processes allowing firms to remain competitive and adapt to external changes.

Measures for adaptive capability are multidimensional, including a firm's ability to adapt their product-market scope to respond to external opportunities; to scan the market, monitor customers and competitors and allocate resources to marketing activities; and to respond to changing market condition in a speedy manner knowledge while firms with higher absorptive capability demonstrate stronger ability of learning from partners, integrating external information and transferring it into firm-embedded knowledge (Wang and Ahmed, 2007). The more a firm exhibits its absorptive capability the more it exhibits dynamic capability. However empirical studies have not developed and validated a multidimensional construct on absorption capability (Wang and Ahmed, 2007). According to Lo'pez (2005), dynamic capabilities is an essential element in the development of knowledge based assets which have a high chance of creating and sustaining competitive advantage in what is today, an unsettled and globalized business environment.

Innovative capability refers to a firm's ability to develop new products and /or markets, through aligning strategic innovation orientation with innovative behaviors and processes (Wang and Ahmed, 2004). Empirical and conceptual studies of adaptive, absorption and innovative capability are long standing (Wang and Ahmed (2007). It is only until recently

that researchers relate each of these capabilities to a firm's dynamic capabilities as highlighted by but have not thus far clearly identified them as the component factors of dynamic capabilities. (Wang and Ahmed, 2007).

The dynamic capability view of the firm essentially considers the firm as a repository of productive knowledge. It suggests that dynamic capabilities are potential sources of sustainable competitive advantage (Teece et al., 1997). Capability building invovles testing and selecting new knowledge combinations and modifying knowledge systems, skills, procedures and routines (Zollo and Winter, 2002). A firms perceptual ability is affected by the tools and systems supporting its decision making. Dynamic capabilities underline the process of transforming resources and capabilities into outputs in such forms as products or services that deliver superior value to customers; such transformation is embarked on in such a swift, precise and creative manner in line with the industry changes (Wang and Ahmed, 2007). Capability development is time-dependent and does not necessarily produce immediate performance effects. Therefore, firms must not reverse or redirect capability development efforts at the first sign of failure or even when no immediate results are produced (Wang and Ahmed, 2007).

Developing new organizational and technological capabilities requires time and resources, and therefore decisions have to be made on the basis of weak signals or expectations of the evolution of the environment. In an uncertain and radically changing selection environment, to match the firm's resource and capability protfolio with environmental opportunities, the decision makers have to evaluate, reconfigure and redeploy the firm's knowledge base and capabilities continously and recognize environmental changes. The scenerio process may support decision making in these

choice situations (Bergman, Jantunen, & Saksa, 2004). The scenerio process made it possible to examine company-specific capabilities and recognize environmental changes which is important for organizational renewal and the creation of appropriate abilities in the participating companies (Bergman et al., 2004).

2.4 Market Dynamism and Opportunities

Great new business opportunities can be created by willing middle managers working together in a creative environment, focused on the future, and supported by top management (Douglas & Robert, 2003). Kotler (2003), on growth strategies highlighted that management can search for growth opportunities using the following framework; selling more of the current products to the current customers; sell additional products to the current customers; sell more of new products to new customers. Success is largely determined by how well the organization adjusts its tangible and intangible properties to keep itself on track with its surrounding.

There is more need for constant monitoring and setting of pre established trigger points to activate response (Daniell, 2006). Advanced scenario planning, shorter strategy planning cycles, greater planning flexibility, increased investment in organizational capabilities, and real time strategy monitoring can lead to effective responses to environmental change. Adhering to a common and enduring set of value can also be essential to guide an organization steadily through periods of destabilization, dynamics and change (Daniell, 2006). Bowman (1994) discovered that organizations are constrained by routines, but, paradoxically, routines are the life-blood of organizations- without routines, organizations could not function. The problem starts when routines get in the way of

strategic thinking and strategic change and when routine thinking gets in the way of lateral/innovative thinking.

Daniel (2006), noted that the winning formula in turbulence was driven by four key factors, all organizational; first, the winners were externally focused and able to track and respond swiftly to changing events around them. Second, they were fast and flexible in response, not slow and bureaucratic. Third, they were long term in outlook rather than preoccupied with the immediate, navigating, as one winning executive sated, by horizon, not the headlines, and fourth, they were constantly dissatisfied with the status quo, and constantly searching for opportunities to improve future performance, no matter how successful they had been in the past.

Kotler (2003) indicates that one of the best rules of strategy is to strive to find out what the target customers like and do more of it; and find out what they dislike and do less of it. Historical influences and the resource- based and market driven views of strategy provide essential contributions into compositions of these strategies, their impact and their potential to offer customerized to particular situation; agility; responsiveness and customization of operations.

Exploitative firms have demonstrated superiority at reinforcing existing skills, processes, and structure that have been less effective at recognizing entrepreneurial opportunities. The excessive focus on exploitation will result in organizational myopia and competency traps (He and Wong, 2004). While existing capabilities provide a firm’s current

competitive position, without renewal, these same capabilities will soon become rigidities that will constrain a firm's further ability to compete (Leonard-Barton1992; Floyd and Wooldridge, 1999).

2.5 Link between Dynamic Capabilities and Opportunity Exploitation

The richest sources of strategic frontier opportunities exist outside the company, and external sources according to Douglas & Robert (2003), are trend search , technology search, business model search and outside expert. Trends they continue to say signifies changes in a dynamic market and changes create opportunities. Technology search implies learning of new technologies as advances in technologies are driving new market opportunities. Business model search demand that entrepreneur and proactive corporate leader are constantly experimenting with new business models components to help meet customers needs in a better way. Outside experts are consultants who study on research markets.

According to Kotler (2003) a marketing plan involves, situational analysis, objectives, strategy, tactics, budgets & controls. The situational analysis will contribute to the exploitation of dynamic capabilities and opportunities when macro- forces (economic, political-legal, social cultural, technological) and the actors (company, competitors, distributors and suppliers) in its environment are examined by the company. This a company carries out a SWOT analysis (strength, weaknesses, opportunities and threat). However, Kotler (2003) criticizes the order and claims that the order should be TOWS (threat, opportunity, weaknesses and strength) under situational analysis as SWOT may

place undue emphasis on internal factors and limit their identification of threats and opportunities to only those that fit the company's strengths.

Exploitative firms have demonstrated superiority at reinforcing existing skills, processes, and structure that have been less effective at recognizing entrepreneurial opportunities. The excessive focus on exploitation will result in organizational myopia and competency traps (He and Wong, 2004). While existing capabilities provide a firm's current competitive position, without renewal, these same capabilities will soon become rigidities that will constrain a firm's further ability to compete (Leonard-Barton1992; Floyd and Wooldridge, 1999).

Current research, however, leads us to believe that there are three additional factors involved (Lowson, 2003); strategy must adapt to the competitive environment; it must have the ability, importantly, to become customized to certain demands of the environment; strategies can also be viewed as transformation devices to manage the decisions involved in moving from one strategic position to another. If Strategic development process is indeed rational, at least to a degree, one would expect there to be witnessed within the enterprise (Lowson, 2003). Good strategy according to Ghemawat (1991) embraces the idea that competitive position must consider both relative cost and differentiation, and it recognizes the tension between the two. Positioning in this view is an effort to drive the largest possible wedge between cost and differentiation (or price).

Attempting too much change perhaps, in a deliberate effort to exercise the dynamic capabilities can impose additional costs when the frequent disruption of the underlying capability outweighs the competitive value of the novelty achieved (Nielsen, 2006).

There is an ecological demand balance between the costs of the capability and the use that is actually made (Nielsen, 2006). Adding value and reducing costs are activities related to innovation processes also called business opportunities (Castorena, Gonzalez, & Villarreal, 2013). Concurring with (Teece et al., (1997), reconfiguration and transformation of activities are fundamental tasks for a company that copes with unstable business environments and this asks for a constant survey of the markets (market intelligence) and sensing & seizing opportunities.

2.6 Empirical Review

Boccardelli and Magnusson (2006), studied the dynamic capabilities in early- phase entrepreneurship on mobile internet industry and found that start ups which change market focus had significantly higher probability to survive their first years. In most cases the change in market focus took place without any related change in technological resources that were used by the firm. They indicated that an important factor at this stage was flexible use of resources in searching for suitable match between resources and market opportunities. The mode of learning and adaptation was very different from earlier proposed models focusing on the acquisition and transformation of resources. Their findings underlined the importance of entrepreneurs to balance the striving for distinctive capabilities that provide competitive advantage and the experimentation and improvisation needed to adapt to changes in the market. This study however looked into technology as the basic resource that were not altered but were adapted to rapidly changing circumstances on the market side. It appeared as though the change used of existing resources was more frequent than a more radical change to the resource base, in terms of resource acquisition or transformation. The variable of study refered to changes

to market focus, changes to technology used and survival. However, this reasearch did not indicate the linkage between dynamic capabilities and opportunity exploitation. Morever the industry referred in the study was very young and was still in the fluid phase.

Ngeera (2013) studied the application of dynamic capabilities approaches in commercial banks in Kenya but the institutions of study had experienced success. The study found out that the dynamic capabilities that had great impact on the banks performance were enhancement of learning process, knowledge and managemet process, research and development activities, and sound strategic managemet decision making .The study used companies that had seen the success of dynamic capability approaches but this study however, did not capture the expansion startegies and globalization factors on the commercial banks. Sensing of exchange rate and trends has much to do with the global environment and determined much on a bank's transactions. Technology capability and e-banking are factors that also determine a banks performance.

Livohi (2012), study determined the key performance index used to measure the downstream supply chain included; the setting of timelines and budgets, monitoring the cost per volume of product transaction against budgeted costs, projection templates were used to measure and control supply chain operations and time to respond to customers queries. The challenges cited while undertaking downstream supply chain performance measurement were regulations and legislation, joint tendering system that left OMCs with little control on the cost of product, capping of both the wholesale and retail price by

ERC. According to the findings the challenges reduced the flexibility of the OMCs in deciding some supply chain operations and time to respond to customer query. Storage Kipevu oil storage facility (KOSF) is governed by OMCs market share limiting the amount of product to trade and transport within the Kenyan market. This study did not however, capture the core competence or distinctive capabilities that the OMCs had developed as far as tackling the challenges was concerned. Like the timeliness in monitoring performance and relaying of feedback information for quick decision making was not clearly highlighted since this enabled modifications for short term opportunity exploitation and performance. Bench marking as a performance measurement would look into how competitor's performance varied and to give a company. Through bench marking the oil marketing firms would know what measures, whether quality, customer satisfaction and quick delivery of products to consumer's .This contributes to leveraging that eventually helps in better opportunity exploitation.

Wairichu, (2000) studied changes in marketing mix of oil companies in Kenya to determine the nature of their adjustments, and establish whether there were new changes in the marketing activities as they operated in a liberalized market. In his findings, the petroleum firms had become innovative and sought new ways of approaching the changed environment, as the market was no longer predictable as before liberization. The study did not clarify how the resources and capabilities could impact on the market mix and how eventual rigidity of core capabilities could be a competitive disadvantage. However, the study also recommended on agility and continued adjustment on their marketing mix to fully exploit any existing opportunities which would add more value to

their operations and also benefit the customers. In his view petrol is a commodity not easy to differentiate and he therefore companies should use quality of service to establish competitive edge. But, the quality of service as a competitive edge is imitable and other firms could imitate and then it loses its uniqueness and lead to eventual lose of competitive advantage.

Sawers, Pretorius, & Oerlemans (2008), examined the number of dynamic capability and their influence on partnership success. Because the dynamic capability approach did not consider the number of dynamic capability to be relevant, but focuses on the level and type of dynamic capability, (Eisenhardt & Martin, 2000; Wang & Ahmed, 2007; Ambrosini, Bowman, & N.Collier, 2009), the study setting did not seem meaningful (Eriksson, 2013). According to Eriksson (2013) some studies operationalize in such away that the the complexity is lost. Barretto (2010) indicated that researchers need to choose how to operationalise not only the aggregate construct (dynamic capability) but also the ‘‘dimensions-related constructs”. According to March (1991), a firm is regarded as a continuous well ordered flow of dynamic capabilities aimed at attaining strategic objectives, it enables managers to arrive at a more balanced decision affecting aspects such as resources, firm’s activities, present markets (exploitation) and any new opportunities that may arise in the future (exploration).

Eriksson (2013), study of methodological issues in dynamic capabilities research found out that although dynamic capability research comprises a balanced mix of qualitative and quantitative studies, there are many problem areas in terms of research methods. The

study reviewed 142 published peer reviewed journal articles on dynamic capabilities and selection of measures was one of the main challenges in dynamic capability research. The key concepts are highly intangible, and there are no established ways of operational zing them. This is why a clear and adequate definition of the main construct is so important. However, Baretto (2010) advises that the same reasoning should be applied to other types of definition and relationships.

The petroleum firm's ability to quickly accomplish changes and transformation of tangible and intangible resources towards a competitive advantage and high performance will rely on dynamic capabilities and opportunity exploitation. This study considered four dimensions as Knowledge, Resources and capability transformation, Market analysis and Opportunity identification and seizing and dimension related constructs sensing seizing, integration and reconfiguration.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section covers research design, population of study, data collection, and data analysis. Data collection section covers data type, instruments and administration. Data analysis section indicates how various data collected from questionnaire section will be used to achieve the various objectives.

3.2 Research Design

The research was a census survey of petroleum marketing firms in Kenya. Mugenda(1999) suggests that where population is small, the entire population can be studied as a sample. Barretto, (2010) on measurement issues looked at the operationalization of the dimensions-related constructs that combine to produce the dynamic capability aggregate construct and stressed that given their nature, might be based on survey data, which can provide direct assessments of the propensities involved.

3.3 Population

The population of study was 42 registered Petroleum importing and marketing companies in Kenya. This is because according Energy regulation commission 2014 as at March 2014, there were 52 licensed OMCs that were actively operating in Kenya. The targeted respondents were 52 Petroleum importing and marketing companies in Kenya, not all of them responded. Only 42 responded meaning that 81% responded while 19% did not respond.

3.4 Data collection

Primary data was gathered to give details of particular company being studied. The data in questionnaire Section A was on profile of company, Section B was on Capabilities achieved, Section C on dynamic capability development, Section D data on dynamic capability activities, Section E challenges and Section F was data on contribution of dynamic capabilities to opportunity exploitation.

Survey questionnaires were used to collect the primary data. The questions were in six parts developed on a five point likert scale ranging from 1 to five ‘not at all’ to 5 indicating ‘a very great extent’. The questions had both closed and open ended questions.

The questionnaires were administered to Chief Executive Officers (CEO) and collected through drop-and-pick-later method. The CEOs continually review dimensions of their business contexts; their industry’s source and level of turbulence, their own strategic position- or market share – within their sector, and their financial strength. Most CEOs however delegated the questionnaire filling to other top managers.

3.5 Data Analysis

Data was verified for completeness, consistency and accuracy. It was then and tabulated and coded into statistical software programme. Section A was analyses to give general information and profile of the companies. Cumulative frequency was used for full descriptive interpretation of data on Section B: dynamic capabilities, Section C: factors

considered during dynamic capability development, Section D: dynamic capability activities and Section E: challenges of competitive advantage.

Mean and standard deviation was used in analyzing data in Section F contribution of the capabilities towards opportunity exploitation. A histogram has been used to analyze the capability levels of the petroleum importing and marketing companies. Correlation analysis was used to analyze data and establish the relationship between the development of dynamic capabilities and opportunity exploitation as will be shown in section. Dynamic capability variables considered were Process Integration, Knowledge creation, leveraging capability and organization reengineering.

Profile of the firms and respondents was considered during analysis to help validate the reliability of data obtained. Firm's age and products, ownership or dealership, also respondents profile like position in the rank was used.

CHAPTER FOUR: RESULTS, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretations of the data from field. It presents analysis and findings of the study as set out in the research methodology to determine the relationship between dynamic capabilities and opportunity exploitation by Petroleum importing and marketing companies in Kenya, also to determine the dynamic capabilities developed by the petroleum importing and marketing companies in Kenya.

4.2 Profile of Respondent Organizations

As part of the general information, the researcher requested the respondents to indicate the type of business incorporated the size classification the period under which the business has been in existence.

4.2.1 Type of incorporation

The respondents said that 81% of the firms were locally incorporated, while 19% were multinational subsidiaries as shown in Table 4.1. This implies that the organizations in the oil industry in Kenya are shifting their ownership to locally incorporated companies. Many of the multinationals have since withdrawn from the Kenyan market like Shell, and Essar energy are the recent multinationals that have withdrawn their operations. Shell outlets have been acquired by ViVo energy.

Table 4.1 Type of incorporation

Type	Frequency	Percent
Locally incorporated	34	81
Multinational subsidiary	8	19
Total	42	100

Source: Research Data, (2014)

4.2.2 Years in Operation

The respondents' results showed that for more than 10 years were 42%, between 6-10 years 21% while 5years or less were 31% as shown in Table 4.2. The companies that have been in the market for more than ten years are largely the multinationals, meaning that most of the oil companies in Kenya are in the hands of foreign shareholders. Many of the young companies with or less than 5 years' experience are the small independent Petroleum importing and marketing companies in Kenya.

Table 4.2: Years in operation

Period	Frequency	Percentage
More than 10 years	22	42
Between 6- 10 years	11	21
Equal or less than 5years	19	31
Total	42	100

Source: Research Data (2014)

4.2.3 Products distributed

Oil products are imported and distributed by the oil companies depending on the market target and business model of the specific OMC. From the respondents, it can be seen as analyzed in the following Table 4.3 that most Petroleum importing and marketing companies distributed Automotive Gas oil, Premium Motor Spirit (Petrol) and Kerosene.

Table 4.3: Petroleum Products Distributed by OMC's

Product Distributed	Number of companies	Percentage	Ranking
Automotive Gas Oil	42	100	1
Premium Motor Spirit	40	95	2
Illuminating Kerosene	39	93	3
Furnace Oils	37	92	4
Liquified Petro- Gas	30	71	5
Aviation Jet A-1	25	60	6
Industrial Diesel	25	59	7
Regular Motor Spirit	24	57	8
Bitumen	17	40	9

Source: Research Data (2014)

This means that Automotive, Premium Motor Spirit and Kerosene indicates a sign of growing market. The result also shows that Furnace oil and liquefied petroleum gas have high demand and should also be treated with concern like automotive gas oil. Bitumen and Regular Motor spirit seem not to be handled by the distributors; main reason could be the associated handling cost. Very few Petroleum importing and marketing companies

handled Jet A-1 (Aviation fuels) that is highly demanded by the air transportation sector. Likely reason for this trend would be handling cost.

4.2.4 Storage facility ownership

Being able to own storage facility is as important as being able to buy the stores items. It is a key resource in the oil industry. Storage facility enables flexibility in planning for oil product receipts and releases. Alternatively in case of inadequate storage facility a firm rents the facility from other Petroleum importing and marketing companies. Scheduling issues are disrupted since the control of rented facility is on short hire and highly dependent on the owner of the facility rented.

Table 4.4: Petroleum Products Storage Facility Ownership

Storage facility ownership	Number of companies	Percentage
Storage facility owners	12	29%
Petroleum importing and marketing companies without storage facilities	30	71%
Total	42	100%

Source: Research Data, (2014)

This lack of the facility creates an opportunity for those storage facility owners to turn their storage facilities for hire. When the respondents were asked to indicate whether their organization own storage facilities in Kenya their response were as shown in Table 4.4. The indication was that 12 companies own their own storage facilities while 30 did not own any.

4.3 Capabilities

Respondents were asked to tick which set of capabilities their organizations had achieved in the last 5 to 10years in 'likert point' scale from 1 to 5. With 1 not at all and 5 most achieved, and the response were as shown in Table 4.5.

Table 4.5: The capabilities the company has achieved in the last 5-10 yr

Capability	Not at all	Slightly achieved	Moderate	Achieved	Most achieved	Mean
Knowledge acquisition	0%	1.7%	21.7%	60.0 %	16.6 %	3.95
Information network model	1.5%	0.6 %	24.%	62.3 %	11.6%	3.56
Innovation	1.8%	0%	23.4 %	67.4 %	7.4 %	3.77
Procedure on response to change	1%	0.7%	22.9%	69.1%	6.3 %	3.59
Stock level capacity	1.6%	0.02%	27.4 %	64.0%	6.9 %	3.66
Transport	1.6%	0%	26.9 %	64.6 %	6.9 %	3.87
Experience in petroleum oil spilt	0.5%	1.1%	29.1%	62.3 %	7.0 %	3.78
Information networking model	0%	1.7%	25.7%	65.7%	6.9 %	3.81
Procedures on initiating change	0%	0%	56.0 %	44.0 %	0%	3.58
Storage	1.3%	0.4%	22.9%	69.1%	6.3 %	3.55
Technology acquisition	0.1%	1.6%	27.4 %	64.0 %	6.9 %	3.67
Communication network	0%	1.7%	25.7 %	65.7 %	6.9 %	3.34

Source: Research Data, (2014)

Other aspects rated as achieved include experience in petroleum oil spilt as shown by a mean score of 3.92, information network model as shown by a mean score of 3.92 and procedure on initiating change as shown by a mean score of 3.83. This implies that dynamic capabilities were generally achieved since the extent of achievement is greater than a mean score 3.00. However, storage, technology acquisition and communication were rated slightly achieved as they showed a mean score of less than 3.00 as shown by a mean score of 2.83, 2.69 and 2.67 respectively.

Capability in ownership of petroleum storage facility was also noted as a key resource in the oil industry. This lack of the facility creates an opportunity for those storage facility owners to turn their storage facilities for hire. Capability in sourcing Petroleum products was noted to determine whether the importing and marketing company will resort to refined crude from Kenya Petroleum Refinery Limited, import refined products industrially, private importation or even purchase from other oil companies.

Knowledge acquisition, information networking models, storage stocking level capacity procedures on response to change, procedures on initiating change and transportation were the most achieved capabilities. Experience in the petroleum oil spill, knowledge acquisition, communication network and technology were achieve just to some extent. Storage, stocking level capacity, and transportation capabilities were slightly achieved

4.3.1 Dynamic Capability Development

In linking the dynamic capability development and factors considered during the development of dynamic capabilities, rating of importance of the factors that affected the

companies while dealing with the environmental challenges were rated. Rating of importance was from 1 Not at all and 5 extremely important. The responses of the respondents were as shown in Table 4.6.

Table 4.6: Factors highly focused on when developing dynamic capabilities

Factors	Not at all	Slightly important	Important	Very important	Extremely important	Mean
Macro forces	0%	0.6 %	30.9 %	60.0 %	6.9%	3.78
Actors	0%	0%	38.9 %	48.0 %	11.4%	3.88
Strengths, weaknesses, opportunities and threats	0.6%	1.6%	32.6 %	54.9 %	10.9 %	3.54
Existing skill, processes and culture	0%	1.4%	26.3 %	58.3 %	14.0 %	3.78
Core competence and capabilities	1.5%	0.2%	18.9 %	66.3%	13.1 %	3.96
Adaptation to competitive environment	1.0%	1.3%	22.3 %	58.3 %	17.1 %	3.67
Opportunities	1.0%	0.7%	22.3%	57.7 %	18.3 %	3.89
Positioning strategy	0.9%	1.9%	23.4 %	56.6%	18.3 %	3.45
Current competitive position	1.3%	2.1%	26.3 %	50.3%	20.0 %	3.12
Resource acquisition	1.7%	0.6 %	36.6 %	57.7%	3.4 %	3.49
Absorption capability	1.4%	0%	26.3 %	58.3 %	14.0 %	3.33
Transformational devices	0%	1.7%	18.9 %	66.3 %	13.1 %	3.68
Behavioral cultural and structural conditions	1.3%	1.0%	22.3 %	58.3 %	17.1 %	3.19

Source: Research Data, (2014)

The result in Table 4.6 shows that, 0.6 % indicated that focusing on macro factors during the development of companies' capability is slightly important , 30.9 % important, 60 % very important while 6.9% extremely important. 38.9 % indicated that it is important to focus on actors when developing companies' capabilities, 48.0 % very important while 11.4 % extremely important. 32.6 % indicated that it is important to focus on the Strengths, weaknesses, opportunities and threats, 54.9% very important while 10.9 % extremely important. 18.9% indicated that it is important to focus on the Existing skill, processes and culture, 66.3 % very important while 13.1% extremely important. 22.3 % indicated that it is important to focus on the Core competence and capabilities when developing company's capability, 57.7% very important while 18.3 extremely important. 22.3 % indicated that it is important to focus on the Adaptation to competitive environment, 58.3 % very important while 18.3 % extremely important. 1.1% indicated that it is slightly important to focus on the Opportunities, 26.3%, important, 50.3% very important while 20.0 % extremely important. Similarly 0.6 % of the respondents indicated that it is slightly important to focus on the Positioning strategy when developing dynamic capability activities, 36.3 % important, 57.7 % very important while 3.4% extremely important. Majority of the means were between 3.0 and 4.0 showing that the organizations have appropriately focused on the development of dynamic capabilities.

4.3.2 Dynamic Capability Activities

The dynamic capability activities section were meant to verify the data gathered about the existing capabilities and which level they fell in to see how much of the capabilities were dynamic. The likert scale used here was from 1 Not at all to 5 greatly implemented.

The results shown in Table 4.7 indicate that, 21.5% of the respondents indicated that Integrated resources activities were occasionally implemented, 58.9% always implemented while 14.3% greatly implemented. 24.6% said that Reconfiguring resources activities were occasionally implemented, 62.3% always while 11.4% greatly implemented. From the analysis, majority of the respondents indicated that Knowledge creation and acquisition occasionally, was always or greatly implemented.

Table 4.7: Dynamic capability activities

Activities	**Not at all**	**Rarely implemented**	**Occasionally implemented**	**Always**	**Greatly implemented**	**Mean**
Integrated resources	3%	2.3%	21.5%	58.9%	14.3%	3.89
Reconfiguring resources	0%	1.7%	24.6%	62.3%	11.4%	3.65
Knowledge creation and acquisition	0%	1.8%	29.1%	61.1%	8.0%	3.29
Knowledge integration	0%	1.7%	32.0%	57.7%	8.6%	3.76
Leverage knowledge	10%	3.1%	0.6%	34.3%	52.0%	3.54
Exploiting knowledge	0%	11.7%	2.3%	39.4%	48.6%	3.87
Relationship in the market	0%	1.8%	33.1%	60.0%	5.1%	3.11
Market positioning	1.7%	0%	26.9%	61.7%	9.7%	3.90
Networking	1.7%	1.1%	26.3%	58.9%	12.0%	3.42
Information gathering	0.7%	1.6%	20.0%	59.4%	18.3%	3.56

Source: Research Data, (2014)

On Knowledge integration level of implementation, 29.1% indicated occasionally implemented, 61.1% always while 8.0% greatly implemented. Similarly, 32.0% of the respondents indicated that Leverage knowledge was occasionally implemented, 57.7 % always while 8.6% greatly implemented. Majority of the respondents indicated occasionally implemented, always or greatly implemented. On the existing Exploiting knowledge, 0.6% of the respondents indicated occasionally implemented, 34.3% indicated always while 52.0% showed greatly implemented. 33.1% indicated that the Relationship in the market activities is occasionally implemented, 60.0% always while 5.1% greatly implemented.

From the analysis, majority of the respondents indicated occasionally implemented, always or greatly implemented. Market positioning activities, 26.9 % of the respondents indicated occasionally implemented, 61.7 % always while 9.7 % greatly implemented. 1.1 5 % indicated that networking dynamic activities was slightly implemented, 26.3 % occasionally implemented, 58.9 % always while 12.0 % greatly implemented. Lastly, on information gathering, 0.6 % of the respondents indicated that the activities were slightly implemented, 20.0 % occasionally implemented, 59.4 % always while 12.0% greatly implemented. These results show that the petroleum importing and marketing companies implement dynamic capability activities.

4.3.5 Challenges and impact on Competitive Advantage

The challenges were rated from 1 not at all to 5. Great impact. This section was to give data on how much the companies in undertaking dynamic capability initiatives were successful despite the challenges.

According to Table 4.8, 0.6 % of the respondents agreed that the impact of scanning the environment for opportunities and threats on the competitive advantage is low, 36.0% indicated moderate impact, and 54.9% indicated high impact while 6.9 % indicated great impact.

Table 4.8: Challenges on competitive advantage

Challenges	Not at all	Low impact	Moderate	High impact	Great impact	Mean
Scanning the environment for opportunities and threats	1.6%	0.6 %	36.0%	54.9%	6.9 %	3.29
Sizing the opportunities	0%	1.8%	29.1%	59.4%	9.7 %	3.76
Resource allocation	0%	1.7%	17.7 %	60.6%	20.0%	3.54
Knowledge sharing	0%	0%	12.8 %	71.5%	15.7%	3.87
Reconfiguring resources	1.6%	0.6 %	32.6%	54.3%	10.9%	3.11
Exploiting opportunities	1.6%	1.1 %	29.1 %	58.9 %	9.3 %	3.90
Adaptation	0%	1.7%	24.6%	61.1%	12.6%	3.89
Market dynamic	0%	1.8%	17.1%	61.7%	19.4%	3.45
Sizing information	2.1%	0.2%	18.3%	58.3%	21.1%	3.12
Communicating information	1.7%	0%	12.0%	60.6%	25.7%	3.49
Transforming processes	1.8%	0%	29.1%	59.4%	9.7 %	3.33
Network capabilities	1.3%	1.0%	17.7 %	60.6%	20.0%	3.68
Innovation capabilities	0%	0%	12.8 %	71.5 %	15.7%	3.19
New resource consideration	0%	1.8%	17.1%	61.7%	19.4%	3.89

Source: Research Data (2014)

29.1% of the respondents indicated that the impact of Sizing the opportunities was moderate, 59.4 % high impact while 9.7 % great impact. 1.1 % indicated that the impact of Resource allocation on the competitive advantage was low, 29.1% indicated moderate, and 58.9 % indicated high impact while 9.3 % indicated great impact. 24.6 % indicated that Knowledge sharing had moderate impact on the competitive advantage, 61.1 % indicated high impact while 12.6 % indicated great impact. 17.1 % indicated that the impact of exploiting opportunities on the competitive advantage was moderate, 61.7 % said high impact while 19.4% great impact. 18.3 % of the respondents indicated that adaptation had moderate impact on the competitive advantage, 58.3 % agree that sizing information of an organization has high impact on the competitive advantage 21.1 % said great impact,12.0 % of the respondents said that communication information had moderate impact on the competitive advantage, 60.6 % high impact while 25.7 % great impact. Means of 3.0 and above shows that petroleum importing and marketing companies in Kenya had various challenges that impacted on their competitive advantage

4.3.6 Opportunity Exploitation

By using likert rating, the respondents were asked to indicate their opinion by choosing between 1-Not at all and 5 as Satisfactorily on the extent the dynamic capability have contributed into exploiting the existing opportunities and the result were as shown in the Table 4.9.

According to the respondents the dynamic capabilities that satisfactorily contributed to opportunity exploitation include Organization skills and resources as shown by a mean score of 4.83, technology as shown by a mean score of 4.67. Financial position as shown

Table 4.9 : Dynamic Capability contribution to Opportunity exploitation

Dynamic Capabilities	Mean	Std. Deviation
Organization skills and resources	4.83	.389
Process integration	4.67	.492
Financial position	4.58	.900
Knowledge creation process	4.33	1.155
Technology	4.67	.492
Integrative strategies	4.67	.492
Scenario processes	4.75	.452
Linkage with external firms	4.50	.798
Collaboration network	3.50	.674
Leverage capability	3.58	.669
Organization reengineering	3.42	.669
External integration of capabilities	3.67	1.155

Source: Research Data (2014)

by a mean score of 4.58 Knowledge creation process as shown by a mean score of 4.33, Adaptation to competitive environment as shown by a mean score of 4.67, integrative strategies as shown by a mean score of 4.67, scenario processes as shown by a mean score of 4.75 and Linkage with external firms as shown by a mean score of 4.50.

Other capabilities that were rated as average include Collaboration network, leverage capability, organizational reengineering and External integration of capabilities as shown by a mean score of 3.50, 3.58, 3, 42 and 3.67 respectively. The mean scores indicated on each dynamic capability is greater than 3.00 meaning they had an impact on opportunity exploitation.

4.4 Relationship between Dynamic Capabilities and Opportunity exploitation.

Reconfiguration and transformation of activities are fundamental tasks for a company that copes with unstable business environments and this asks for a constant survey of the markets (market intelligence) and sensing & seizing opportunities.

A correlation analysis was performed to determine the nature of association between the dynamic capability and opportunity exploitation. The aim was to determine the nature and strength of association between each of the dynamic capability and the opportunity exploitation. See Table 4.10 below.

Table 4.10: Correlation between dynamic capabilities and opportunity exploitation by petroleum importing and marketing companies in Kenya

		Organization Re-engineering	Process Integration	Knowledge Creation Process	Leveraging Capability
Opportunity Exploitation	Pearson Correlation	.408	.773	.827	.766
	Sig-(2tailed)	.188	.003	.001	.004
	N	42	42	42	42

The correlation result was that there was a strong positive correlation between each of the dynamic capabilities and the opportunity exploitation by petroleum importing and marketing companies in Kenya. Knowledge creation process had the highest positive

correlation of 0.827 with opportunity exploitation. Knowledge creation process is a very essential activity for the exploitation of an opportunity

Process integration was second with a strong positive correlation of 0.773 with opportunity exploitation. This strong association is consistent with the reviewed literature that process integration is an important element of business activity and its use has been strongly linked to successful business growth and a number of other attributes of the firm. Leveraging capability had average positive significant correlation of 0.766 with opportunity exploitation by petroleum importing and marketing companies in Kenya. The result indicates that leveraging capability moves in the same direction with opportunity exploitation.

Organization re-engineering creation process had also a strong significant correlation of 0.408 with opportunity exploitation. This finding therefore confirms that a positive movement on knowledge creation process will be accompanied with a similar move in the opportunity exploitation by petroleum importing and marketing companies in Kenya. Organization re-engineering is very important to petroleum importing companies both new and established and can positively impact their performance.

4.5 Discussions of Findings

The Petroleum Importing and marketing companies were of different sizes, small, medium and large. Large companies were 8, medium were 10, while 24 were smaller companies. There is evidently a growing number of small independent oil companies and multinationals leaving the country like Shell and Essar Energy.

According to the result shown in the histogram below, the number of capability activities developed by small size firms fall under either zero level capability or capability level. There implies that there is a strong relationship between the size of a firm and its capability level. The small size firm's capability is between 0 and 2 capability level, (where 0-1 is zero capability level and 1-2 is capability level) as shown in figure 4.2 below.

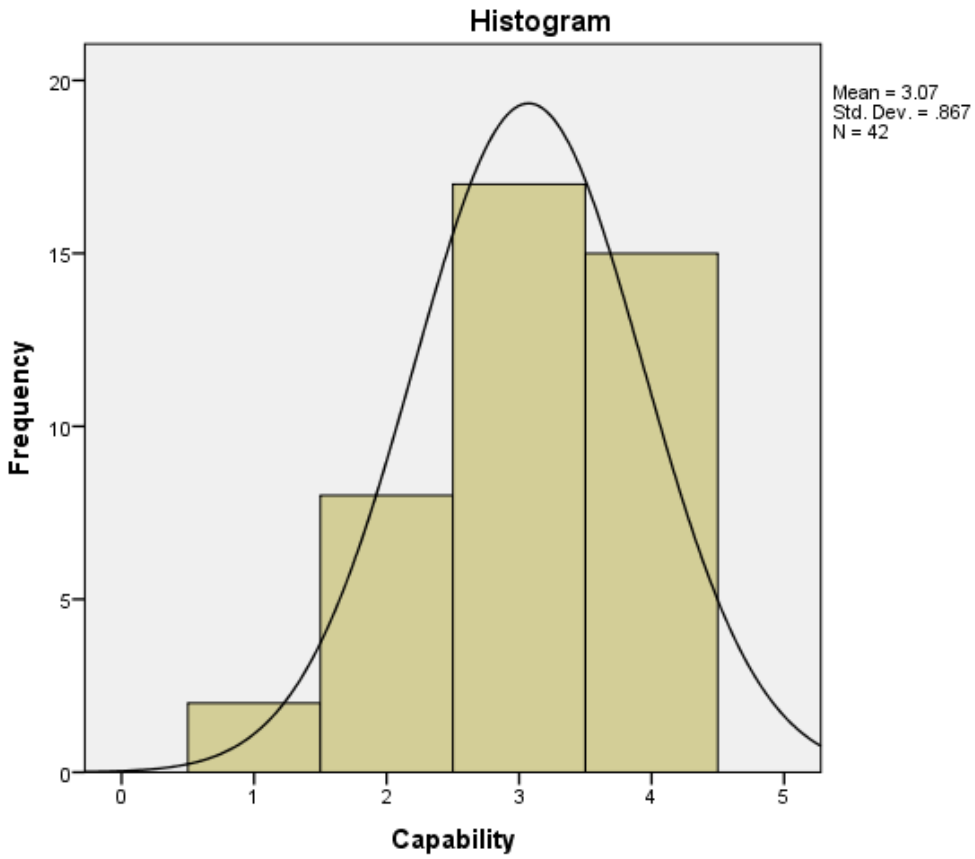

Figure 4.2 Capability levels. Source- Research Data

The middle and large size firms, however, show that the number of capabilities developed fall under either core capability or dynamic capability. This means that there is a strong relationship between the size of a firm and its capability. The middle and large

size firm's capability is between 2 and 4 capability level, (where 2-3 is zero capability level and 3-4 is capability level) as shown in figure 4.2.

The findings of the study indicate that organizational skills and resources, process integration and financial position satisfactorily contributed to exploitation of existing opportunities. While, Knowledge creation process, technology, integrative strategies, scenario process, collaboration network, leveraging capability, contribution were above average in opportunity exploitation contribution. Organization reengineering, external integration of capabilities and linkage with external firms were just averagely contributing to exploitation existing opportunities.

The dynamic capability activities that most petroleum importing and marketing companies greatly implemented were, integrating resources, leveraging knowledge, Market positioning, Networking and information gathering. One respondent from the larger petroleum marketing companies indicated that all the dynamic capabilities had satisfactorily contributed to opportunity exploitation.

Closely organizational skills and resources, financial positions are just the core capabilities that the petroleum companies in Kenya have. The companies are way far off from Zero level capabilities see figure. 4.2. Process integration brings the petroleum companies in Kenya to the dynamic capability level and highest contributor in opportunity exploitation.

Reasons for average contribution of dynamic capabilities to opportunity exploitation from the dynamic capabilities could be as Bowman (1994), puts it that organizations are constrained by routines and problem starts when routines get in the way of strategic thinking and strategic change and when routine thinking gets in the way of lateral/innovative thinking. The challenges that greatly impacted on the competive advantages was Knowledge sharing and innovative capability.

While knowledge creation process is highly related to opportunity exploitation, the behavioural cultural and structural factors still need to be considered as extremely important so as to enable successful knowledge management. Even though financial position contributed highly to opportunity exploitation this could just be the reason that storage facilities and transportation, stocking level are still a hindrance, but the ability to create value is not based as much upon physical or financial resources as on a set of intangible knowledge- based resources (Lo'pez, 2005).

Having been able to develop dynamic capabilities, improvement on activities especially on market relationship and information gathering is vital, as March (1991) put it that continuous well ordered flow of dynamic capabilities aimed at attaining strategic objectives, enables managers to arrive at a more balanced decision affecting aspects such as resources, firm’s activities, present markets (exploitation) and any new opportunities that may arise in the future (exploration).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to establish the relationship between dynamic capabilities and opportunity exploitation by Petroleum importing and marketing companies in Kenya.

5.2 Summary

The study deduced that dynamic capability of Petroleum importing and marketing companies in Kenya have contributed to the exploitation of existing opportunities to a greater extent. The study indicated that dynamic capabilities achieved most in the last 5-10 years include knowledge acquisition, information networking model, innovation, procedure on response to change, stock level capacity and transport. Dynamic capabilities are capabilities that help units extend, modify, and reconfigure their existing operational capabilities into new ones that better match their changing environment. The study also found that factors that are highly focused on when developing dynamic capabilities in dealing with environmental changes macro forces(political, regulation, environment) and actors (consumers, competitors, suppliers), Strengths, weaknesses, opportunities and threats, Existing skill, processes and culture, Core competence and capabilities, Adaptation to competitive environment, opportunities, positioning strategy, current competitive position, resource acquisition, absorption capability and transport.

On Relationship between the dynamic capabilities and opportunity exploitation by petroleum companies in Kenya, the study found that the dynamic capability that satisfactorily contributed to opportunity exploitation include organization skills and resources, emergence and access to technology, organization financial statement position , the Knowledge creation process, the adaptation to competitive environment in which such an organization operate, the integrative strategies , scenario processes and Linkage with external firms. The study also found that other dynamic capabilities contributing to the exploitation of existing opportunities include Collaboration network, leverage capability, organizational re-engineering and external integration of capabilities

5.3 Conclusion

The study concludes that there is a relationship between the dynamic capabilities and opportunity exploitation by petroleum companies in Kenya. The dynamic capabilities include knowledge acquisition, information networking model, innovation, procedure on response to change, stock level capacity and transport. The study further found that the dynamic capability contributing to opportunity exploitation include organization skills and resources, emergence and access to technology, organization financial statement position , the Knowledge creation process, the adaptation to competitive environment in which such an organization operate, the integrative strategies , scenario processes and Linkage with external firms.

5.4 Recommendations

The extent to which an organization utilizes a particular capability (dynamic or otherwise) depends upon circumstances, including the difficulty of the task (Stadler, Helfat, & Verona, 2013). In particular because firms face variation in the opportunities available to them, different firms have different opportunities to undertake resource access and development activities. A firm whose dynamic capabilities have attributes that confer the potential for lower costs and/or a higher value of output are likely to have more successful outcomes from conducting an activity.

Opportunity exist when there is disequilibrium between market needs and the means to satisfy those needs, so it can be inferred that the ability to notice opportunity would require knowledge of those needs and means. Dynamic capability is one of the means to satisfy those needs and factors considered during the development are critical.

When the Petroleum importing and marketing companies develop their dynamic capabilities to achieve competitive advantage they need to look closely at scanning the environment for opportunities and threats, reconfiguring resources, communicating information and exploiting opportunities as these are the challenges that highly impact on the dynamic capability development. They also need to always implement dynamic capabilities activities such as integrating resources and leveraging knowledge that most small companies only occasionally implement. Large organizations should put more emphasis on the challenges of seizing the opportunities, seizing information, knowledge

sharing, communicating information, exploiting opportunity and adaptation to competitive environment.

5.5 Limitation

The Petroleum industry study should have involved all the marketing companies not only the ones that import the petroleum products. KPRL has also been out of operations for 1year and the Petroleum importing and marketing companies have diminished sources with the shutdown of crude processing activities at KPRL.

Most CEO's were hesitant to respond while a few delegated the filling up of the questionnaires to the other top managers. Some companies were adamant to give information citing integrity and policy issues on information required.

5.6 Suggestions for Further Research

This study focused on dynamic capabilities developed and the relationship between the dynamic capabilities and opportunity exploitation in the Petroleum importing and marketing companies in Kenya. The opportunities that are considered are those that are already available. It is therefore important to find out how the future difficult to predict opportunities can be explored.

A study on how dynamic capabilities will be developed with the upstream exploration in the just discovered oil in Kenya needs to be carried out as the dynamic capabilities in Petroleum importing and marketing will be very different if the current exploration

succeeds and a looming total closure of the Kenya Petroleum Refinery Ltd becomes a reality.

5.7 Implications on Theory, Policy and Practice

The theories that are implied in the dynamic capability studies need to include opportunity perception, apart from the Resource based view; Knowledge based view, market dynamism.

Policy makers will require reviewing their strategies especially on stocking level and probably put into place storage and transportation so that small size companies have the environment for growth and promotion of trade.

The extent of capability leverage is to be taken seriously in practice since behavioural culture and structure of the petroleum importing and marketing companies' hinder progress to added competitive advantage even after undertaking dynamic capability approaches.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Declaration

This research aims to determine the relationship between dynamic capabilities and opportunity exploitation by Petroleum importing and marketing companies in Kenya. It also aims to establish dynamic capability development and extent of dynamic capabilities and opportunity exploitation by the OMCs.

The information received from this survey shall be kept confidential, and shall be used strictly for academic purposes only. Your participation in this survey shall highly be appreciated.

Section A: Profile

Name of organization: ----------

Position held: ----------

Department/ Function: ----------

Please tick as may be applicable to your firm

Q1. a) Is your organization locally incorporated or a multinational subsidiary?

Locally Incorporated [ ] Multinational Subsidiary [ ] Other [ ]

If other, please specify**:** ----------

b) What size classification does your organization fall into?

Small [ ] Medium [ ] Large [ ]

Q2. How long has your organization been in the petroleum import and distribution business?

i. More than 10 years [ ]
ii. Between 6 and 10 Years [ ]
iii. Five years or less [ ]

Q3. What products among the ones listed does your organization distribute?

i. Aviation Jet A-1 [ ]
ii. Illuminating Kerosene [ ]
iii. Regular Motor sport [ ]

iv. Premium Motor sport [ ]
v. Liquefied Petroleum Gas [ ]
vi. Automotive Gas oil [ ]
vii. Industrial Diesel [ ]
viii. Furnace Oils [ ]
ix. Bitumen [ ]

Q4. Does your organization own storage facilities in Kenya?

Yes [ ] No [ ]

Q5. What are the sources of your products listed above?

i. Industrial imports of refined products [ ]
ii. Private import of refined products [ ]
iii. Crude processing at KPRL [ ]
iv. Purchases from other oil companies [ ]
v. Other (Specify):----------

Q6. Does your organization import products for neighbouring companies?

Yes [ ] No [ ]

Q7. Is your company utilizing the Transport and storage facilities at the Kenya Pipeline Company?

Yes [ ] No [ ]

Section B: Capabilities

Q8. Please indicate by ticking **(√)** on the given table, which of the following capabilities your company has achieved in last 5 to10yrs.

Not at all (1) low achievement (2) Achieved (3) Averagely achieved (4)

Highly achieved (5)

	Capability	**Rating of Achievement**				
		1	**2**	**3**	**4**	**5**
i.	Experience in petroleum oil spill					
ii.	Knowledge acquisition					
iii.	Information Networking models					
iv.	Communication network					
v.	Innovation					
vi.	Information Networking models					
vii.	Procedures on response to change					

viii.	Procedures on initiating change					
ix.	Storage					
x.	Stocking level capacity					
xi.	Technology acquisition					
xii.	Transportation					

Section C: Dynamic Capability Development

Q9. Indicate on the table by ticking **(√)** the factors that are highly focused on when developing dynamic capabilities for your organization in dealing with environmental challenges.

Not at all (1) Slightly important (2) Important (3) Very important (4)

Extremely Important (5)

	Factors considered for dynamic Capability Development	**Rating of Importance**				
		1	**2**	**3**	**4**	**5**
i.	Macro forces (Political, regulations, environment)					
ii.	Actors (Consumers, Competitors, Suppliers)					
iii.	Strength, weaknesses, Opportunities and Threats					
iv.	Existing skills, process & structure					
v.	Current competitor position					
vi.	Core competence and capabilities					
vii.	Behavioral cultural & structural conditions					
viii.	Resource acquisition restriction(competition & social technical consideration					
ix.	Adaptation to competitive environment					
x.	Absorption capability					
xi.	Transformational devices					
xii.	Opportunities					
xiii.	Positioning Strategy					

Other factors considered? Please specify----------

Section D: Dynamic Capability Activities

Q10. Indicate on scale of 1-5 the extent of which you have successfully implemented the activities listed below. Indicate by ticking **(√)** the appropriate box.

1. Not at all 2. Rarely implemented. 3. Occasionally implemented.

4. Always implemented 5. Greatly Implemented

	Activities	**Rating of Activities**				
		1	**2**	**3**	**4**	**5**
i.	Integrating resources					
ii.	Reconfiguring resources					
iii.	Knowledge creation & acquisition					
iv.	Knowledge integration					
v.	Leveraging knowledge					
vi.	Exploiting knowledge					
vii.	Relationship in the market					
viii.	Market positioning					
ix.	Networking					
x.	Information gathering					

Section E: Challenges

Q11. In the challenges listed below which one do you consider to have greatly impacted your competitive advantage in the last 10 years? Indicate by ticking **(√)** the appropriate box.

1. Not at all 2. Low impact 3. Moderate impact

4. High impact 5. Great Impact

	Challenges	Rating of Challenges				
		1	2	3	4	5
i.	Scanning the environment for opportunities & threats					
ii.	Seizing the opportunities					
iii.	Seizing information					
iv.	Resource allocation					
v.	New resource configurations					
vi.	Knowledge Sharing					
vii.	Reconfiguring resources					
viii.	Communicating information					
ix.	Exploiting Opportunity					
x.	Adaptation to competitive environment					
xi.	Transforming processes					
xii.	Networking capabilities					
xiii.	Innovation capability					
xiv.	Market dynamic analysis					

Section F: Opportunity Exploitation

Q12. To what extend have the dynamic capability listed below contributed to your organization into exploiting most of your existing opportunities? Indicate by ticking **(√)** in the appropriate box.

1. Not at all 2. Below average 3. Averagely 4. Above average

5. Satisfactorily

	Dynamic Capability	**Rating of Exploitation**				
		1	**2**	**3**	**4**	**5**
i.	Organizational skills & resources					
ii.	Knowledge creation process					
iii.	Technology					
iv.	Integrative strategies					
v.	Process integration					
vi.	Financial Position					
vii.	Organization reengineering					
viii.	External integration of capabilities					
ix.	Scenario process					
x.	Linkage with external firms					
xi.	Collaboration network					
xii.	Leveraging capability					

APPENDIX II: NAMES OF PETROLEUM MARKETING AND IMPORTING COMPANIES AS AT MARCH 2014

1	Safari Ltd
2	Mogas Kenya Ltd
3	Oryx Energies Kenya Ltd
4	Engen Kenya Ltd
5	Kencor Petroleum Ltd
6	Milio East Africa Ltd
7	Oil City Ltd
8	Kenya Petroleum Refineries Ltd
9	Prime Regional Supplies Ltd
10	Al leyl Petroleum Ltd
11	Ranway Traders Ltd
12	Regnol Oil (K) Ltd
13	Tradiverse Kenya Ltd
14	KenolKobil Ltd
15	Muloil Limited
16	Ocean Energy Ltd
17	Dalbit Petroleum Ltd
18	East African Gasoil Ltd
19	Amana Petroleum (Kenya) Ltd
20	Heller Petroleum Ltd
21	Stabex International Ltd
22	Ainushamsi Energy Ltd
23	Libya Oil Kenya Ltd
24	Ramji Haribhai Devani Ltd
25	Gapco Kenya Ltd
26	Keroka Petroleum Ltd
27	Milio Energy Kenya Ltd
28	Oilcom (K) Ltd
29	Alba Petroleum Ltd
30	Bakri International Energy Company Ltd
31	Gulf Energy Ltd
32	Hass Petroleum Kenya Ltd
33	Afrioil International Ltd
34	Finejet Ltd
35	Galana Oil Kenya Ltd
36	Olympic Petroleum Ltd
37	Vivo Energy Kenya Ltd
38	Essar Petroleum (East Africa) Ltd
39	Petro Oil Kenya Ltd
40	Topaz Petroleum Ltd
41	Banoda Oil Ltd
42	Riva Petroleum Dealers Ltd
43	Fossil Fuels Ltd

44	Total Kenya Ltd
45	Trojan International Ltd
46	Global Petroleum Products Kenya Ltd
47	Hashi Energy Ltd
48	Royal Energy (K) Ltd

49	One Petroleum Ltd
50	National Oil Corporation
51	Tosha Petroleum Ltd
52	Jade Petroleum

APPENDIX III: DATA COLLECTION LETTER

UNIVERSITY OF NAIROBI
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DATE: 09th SEPTEMBER, 2014

TO WHOM IT MAY CONCERN

The bearer of this letter, **Ogina Dolrose Awino.** Of Registration Number **D61/77052/2012** is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

She is required to submit as part of her coursework assessment a research project report. We would like the student to do her project on ***Relationship between dynamic capabilities and opportunity exploitation by petroleum importing and marketing companies in Kenya.*** *We* would, therefore, appreciate if you assist her by allowing her to collect data within 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 organization on request.

Thank you.

Joseph Aranga
Assistant Coordinator, School of Business-Mombasa Campus