RELATIONSHIP BETWEEN COMPETITIVE STRATEGIES AND PERFORMANCE OF INDEPENDENT OIL COMPANIES IN KENYA

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DECLARATION

This management Research Project is my original work and has not been submitted for a degree or any other award in any other university.

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This management report has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To my wife Rita and our children, Ciru, Mukami and Kariuki who kept me company while sometimes burning the midnight oil working on this project.

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ABSTRACT

This study was to establish the competitive strategies adopted by independent oil companies in Kenya and their link to performance in the market place. The research utilized both secondary and primary data. The researcher conducted qualitative in depth personal interviews for quality data. In some areas, secondary data were the only data available for the study. The research was conducted on all independent oil companies, which are currently actively operational in the market. Many independent oil companies are registered, according to data from the registrar of companies. However, only twenty seven are currently active in the Kenyan market. Interviews conducted on these companies were to establish the competitive strategies, which they use in their operations and how these relate to performance. Sales volume and corresponding market share was used as a measure of performance for comparison. The data collected on sales performance was verified from independent sources such as Kenya Pipeline Company for authenticity.

The researcher deduced that the independent oil companies in Kenya generally adopt competitive strategies in their operations. Though simple, the competitive strategies used have some relationship to performance in the market place. Sales volumes was the main criteria used to measure performance. A key finding was that the independent oil companies, which adopt competitive strategy, realize better performance. From the findings, it is imperative for the independent oil companies to conduct the industry analysis wherein the moves and counter moves of the competing firms are studied. Such analysis will help the companies to ascertain their position vis-à-vis the competing firms and chalk out the competitive strategy.

The study also established that the independent oil companies use various competitive strategies in their operations. These tend to be replicated from the more established major oil companies but simplified to suit the local market condition. Due the fact that the independent oil companies are not endorsed with the resources, competitive strategic planning is localized and mainly done by the senior managers with little or no input from customers or more junior employees in the companies.

TABLE OF CONTENTS

LIST OF TABLES:

LIST OF FIGURES:

CHAPTER ONE: INTRODUCTION

1.1 Background

This chapter provides background information to the study. It outlines challenges faced by independent oil companies in the wake of liberalization of the Oil industry in Kenya and the competitive nature of a previously controlled and profitable industry. The emergent research problem is synthesized and the related research objectives outlined.

The overall petroleum policy in Kenya is to ensure secure, reliable and least cost supply of petroleum products to the domestic economy. Consistent with this policy and in tandem with reforms in other sectors of the economy, the government liberalized the distribution and pricing of petroleum products, and at the same time partially deregulated petroleum supply. (Report on Petroleum Sub-Sector in Kenya, 1994). The petroleum industry was liberalized in October 1994 as part of the energy sector reforms. Since then, the industry has undergone significant changes in its attempt to become market driven. Prior to that the industry was fully controlled and dominated by a few major international oil companies who had been in the market from the colonial days. Partial deregulation of the procurement process was necessitated by lack of adequate storage capacity for Liquefied Petroleum Gas (LPG) in the country and therefore the need to serve the domestic LPG in the market through processing of 1.6 million tons of LPG rich crude oil at the Kenya Petroleum Refineries Limited in Mombasa (Report on Emergence of Independent Petroleum Dealers in Kenya No. 04/2003).

Liberalization of petroleum trading has seen new players enter the market to engage in import, export, wholesale and retail petroleum businesses. Today we have many players especially independent indigenous companies who now command approximately 25 percent market share. However though the independents have gained considerable market share the country has not enjoyed the full impact of deregulation in it's intend for a more free market and competitive pricing. Effective legal and regulatory framework to guide the industry players in a liberalized market consistent with international norms, and characterized by prohibitive entry barriers are some inherent hindrances to independents in this market. Some of the critical entry barriers include the high initial investment capital requirement, which is made worse by the high costs of money in the domestic market. In addition it is a requirement to process a base load requirement of at least 500 metric tonnes per month for the industry of which each market entrant must take their share. Other factors include line fill and dead stock contribution requirement by Kenya Pipeline Company Limited and lack of common truck loading facilities for companies, which are not already established in the market. The independent petroleum dealers also suffer a 'credibility problem' with consumers and policy makers due to perceived unethical business practices, especially with regard to fuel adulteration, dumping of export products and running off-spec, poorly branded and ill-located retail dispensing units, (The Point – Bulletin of the Institute of Economic Affairs Issue No. 58: May 2005).

Following liberalization, the first middle-level independent petroleum dealers to be registered were small –scale international importers who were targeting the export market in the Great Lakes region. Their target was chosen due to the fact that there were very steep financial and infrastructural entry barriers to the local market. The first independent retail outlets began emerging one year after liberalization. As the number of independent dealers increased, it also became apparent that for them to succeed, they needed to consolidate some of their operations so as to take advantage of economies of scale. As a result, the Independent Petroleum Dealers Associations was formed and registered in January 2000. The main objective of this association included, *inter-alia*, co-ordinating joint product procurement, training in product handling, safety and environmental protection, representation at industry forums, lobbying with industry policy makers, creating awareness on the legal rights of independent traders and enhancing their knowledge of the petroleum industry and its operations. Today there are 112 number registered independent oil companies in Kenya but only 28 are active (according to Kenya Pipeline Company operating report June 2007) operating under various brand names. Operations range from tiny outlets mainly one or two pump outfits, fully fledged branded sizeable retail sites, commercial customer service outfits to export business enterprises.

In this context a previously profitable sector has turned into a highly competitive and potentially loss making business for any company whether major or independent. In the process the industry which had witnessed many new players enter the market has also at the same time seen many of the entrants leave the market after a few years of operation due to various reasons. It is true that many of the entrants initially joined an industry, which was viewed as lucrative and this might have been the case prior to liberalization. However, once in the industry they have changed strategies due to operating conditions and opted out shortly after a few years in operation. However, there are quite a number who have adopted various strategies and have continued to operate alongside the majors (Institute of Policy Analysis and Research SR No. 04/2003).

1.1.1 Competitive Strategies

In the earlier days (1940s-50s), market environments were relatively stable. Organizations planning systems were based on extrapolation of current year sales and environmental trends over the last 5 to 10 years (Donnelly 1992). Over the last few decades, a major shift is believed to have occurred in the way organisations cope with their environments. Researchers assert that many companies have increasingly adopted different competitive strategies due to the increasingly turbulent environment (Ndungu, 2006).

Pearce and Robinson (2007) define competition as the state within a market setting where firms work and set strategies to gain advantage or greater success over each other. Competitors in an industry refer to firms who sell the same product or service. The product or service may or may not be branded. More broadly, the concept of competition may include firms that sell different products or services but which can serve as a substitute for the industry's product or service. Such substitutes may be many. Activities of a firm's competitors affect its performance and therefore cannot be ignored in the firm's strategy. Competition is mainly aided by a free market set up where firms are not bound by any set rules but are free to select various competitive strategies in order to gain competitive advantage. Competitive advantage determines a firm's success in the market place which can be measured in various ways, the key one being profitability and market share.

According to Michael E. Porter (1979), competition in an industry is characterized by five forces. They include intensity of rivalry, threat of new entrants, threat of substitute products, power of buyers and power of suppliers.

In addition to the five forces, Pearce and Robinson (2007) highlighted generic competitive strategies used by firms. These include cost leadership, differentiation and focus. Low cost leaders depend on some fairly unique capabilities to achieve and sustain their low cost excelling in cost reductions and efficiencies. They maximize economies of scale, implement cost cutting technologies, stress reductions in overhead and administration expenses, and use volume sales to propel themselves up in the earning curve. This efficiency in production and distribution translates to saving hence aggressive pricing in the market. Product differentiation, or brand identification, give a product or service its distinctiveness in the market ensuring that customers relate to it. By stressing the attribute above other product qualities, the firm attempts to build customer loyalty. Focus strategy whether anchored in low-cost or a differentiation base, attempts to attend to the needs of a particular market segment. A firm pursuing a focus strategy is willing to service isolated geographic areas; to satisfy the needs of customers with special financing, inventory, or service problems; or to tailor the product to the unique demand of the small to medium sized customer.

Another approach to studying competitive strategies was introduced by Milles and Snow in 1978. They describe the various adaptive problems encountered by companies and their approach to counter the same in order to ensure they are competitive. These strategic types are labelled the *Defender*, the *Analyser*, and the *Prospector*. If the management chooses to pursue one of these strategies, and designs the organization accordingly, then it may be a more effective competitor in its particular industry over a considerable period of time. On the other hand, if the management is slow to respond to opportunities and adopts the *Reactor* strategy it is likely to be an ineffective competitor within the industry in which it operates.

1.1.2 Company Performance

Since their inception, companies have used various yardsticks for measuring and reporting performance. The two main items used to measure performance are the firm's market share within the particular industry in which it operates and its profitability. Profitability is then used to measure the company return on capital employed hence value to its shareholders. Accountants and economists have derived and used various financial ratios to assess company financial performance. These ratios mainly involve the company liquidity – cash flow liquidity ratio, debt management – financial leverage index, asset management – return on total assets, profitability – cash flow margin and finally return on investment – dividend yield (Brealey Myers, 2003).

Kaplan and Norton (2001) introduced the balanced scorecard as a more realistic measure of performance. The balance scorecard defines a strategy's cause-and-effect relationships and provides a framework to organizing strategic objectives into the financial perspective in line with the vision and mission. Key items linked are financials, customer service and satisfaction index, learning and growth within the organization and internal business processes. Internal business process are the path to achieving strong financial results and superior customer satisfaction.

Pearce and Robinson (2007) highlight three economic goals, which define a company's performance guided by strategic direction. These goals are survival in the market, growth and profitability. A firm's growth is tied inexplicitly to its survival and profitability. Survival means a long-term strategy to remain in business and inability to do so means the company is not capable of satisfying the stakeholders aims. Although product impact market studies (PIMS) have shown that growth in market share is correlated with profitability, other important forms of growth do exist. Growth in the number of markets served, in the variety of products offered, in the technologies that are used to provide goods or services frequently leads to improvements in a firms' competitive ability. Growth means change, and proactive change is essential in a dynamic business environment. Profitability is the main goal of a business organization. No matter how profit is measured or defined, profit over the long term is the clearest indication of a firm's ability to satisfy the principal claims and desires of employees and stockholders. Decisions must be based on the long-term as short-term may produce misleading profit results which overlook the enduring concerns of customers, suppliers, creditors, ecologists and regulatory agents.

1.1.3 Competitive Strategies and Performance

Generally competitive strategies are employed by firms within a particular industry in order to aid their performance. And to a fair extent, the strategies adopted are expected to relate to performance of the companies. Many planning experts believe that the general philosophy of doing business declared by the firm in the mission statement must be translated into a holistic statement of the firm's strategic orientation before it can be further defined in terms of a specific long-term competitive strategy. From a scheme developed by Michael Porter (1979) long term strategy should derive from a firm's attempt to seek a competitive advantage based on one of three generic strategies.

Low cost leadership depends on some fairly unique capabilities of a firm to achieve and sustain their low-cost position within the industry of operation. Examples of such capabilities are having secured suppliers of raw materials, being in a dominant market share position or having a high degree of capitalization. A low cost leader must also have optimal production costs, hence low prices and higher margins.

Striving to create a market unique product for varied customer groups through differentiation is another key competitive strategy, which aids performance. Competitive strategies dependent on differentiation are designed to appeal to customers with special sensitivity for a particular product attribute. Such customers will be willing to pay a premium hence improve the firm performance.

The focus strategy, whether anchored in low-cost base or differentiation base, attempts to attend to the needs of a particular market segment. The focusing firms profit from their willingness to serve otherwise ignored or under appreciated customer segments. A classic example is cable television (Pearce and Robinson, 2007).

Milles & Snow (1978) link success in performance of organization to types of adaptive strategies that management chooses to engage. Each of these types - defenders, prospectors, analysers and reactors, has its own competitive strategy for responding to the environment, and each has a particular configuration of technology, structure and processes that is consistent with its strategy.

Various studies have been carried out linking competitive strategies to firm performance. According to Steiner (2002), a company's performance is closely linked to competitive marketing strategies it adopts. Each company's strategy must be unique since each company is different with respect to customer, channel partner, competitor, and company. In highly competitive markets, companies must be able to integrate customer, channel partner and company needs. Balancing the different needs is not easy and costly missteps may occur quickly. In addition to customer, channel and company needs, a company has to watch the competition. There is no strategy that works for everybody. Different companies need different strategies depending the marketing and business goals they want (or need) to achieve; the strength and weaknesses of the company; the competitiveness of the industry; and general industry and market trends.

A study carried out on small firms revealed that the competitive strategy of has significant positive influence on performance. Use of a wide variety of strategies and keeping firm size to a manageable level in numbers also favours performance. Performance can be improved by producing customized or specialized products but also through increasing the aggressiveness of its competitive strategy by defending market niches such as raising advertising and marketing efforts. Survival of small firms is linked to product differentiation, as typically small firms are niche players. The tendency in this instance is to become more specialized and localized and to seek economies of scope, to improve the long run prospects of the firm (Power and Reid, 1993)

Another concept linking company competitive strategy to performance was introduced by Breene and Nunes (2005). Their research and experience with clients demonstrated that what distinguishes high performers from their competitors is the consistent way they construct and maintain this competitive essence. While many companies compete on the basis of a single point of differentiation, the competitive essence of high performers is almost always achieved through the balance, alignment and renewal of what they identified as the three building blocks of high performance: market focus and position, distinctive capabilities and performance anatomy.

Companies seeking to improve their competitive essence are most apt to fail when they lose the critical sense of balance required for high performance, favouring one building block to the exclusion of the others. Today, for example, many companies appear to be overemphasizing the importance of scale in their business, which amounts to a dangerous over reliance on competitive advantage enabled through market focus and position.

Organizations also put their competitive essence at risk when they fail to refresh and renew the building blocks—for example, by continuing to rely on capabilities that are no longer distinctive, or by resting on the laurels of a once-celebrated corporate culture long after it has lost its vitality. They found that high-performance companies continuously balance, align and renew the building blocks, creating their competitive essence through a careful combination of insight and action. Would-be high performers seek to do the same (Breene and Nunes 2005).

According to Pradeep Anand (2005) the ability of a company to outperform its competition depends on five major factors. The first four set the strategic direction for success. These are ability to take advantage of market activity trends; ability to capture and protect 'unfair share' of markets; ability to capture premium pricing; prudent creation and introduction of new products. The last one assures execution. This entails having people, processes and technology for execution excellence.

1.1.4 The Petroleum Industry

Petroleum is Kenya's major source of commercial energy and has, over the years, accounted for about 80% of the country's commercial requirements, the others being hydro-electric power, wood fuel, solar power and wind generated power. Compared to other developed countries and larger economies Kenya's demand is still quite small as the country relies heavily on a labour intensive and rain-fed agricultural sector. However, due to recent better economic performance of the country the industry is growing rapidly with demand both locally and for transit to the various neighbouring countries increasing steadily. The domestic market demand for all the various petroleum products is currently at 3.9 millions tonnes annually. Demand for transit product to Kenya' neighbouring states stands at 2.9 million tonnes annually. Kenya' main source of oil imports is the Middle East from where both crude oil and refined product is imported. Crude oil is imported for refining at Kenya Petroleum Refineries Limited (KPRL), which caters for about 70% of the domestic demand, the balance being imported refined product (Institute of Policy Analysis and Research, 2003).

Due to lack of Liquefied Petroleum Gas (LPG) import handling and storage facilities in the country at the time of deregulation, the government made it mandatory for any oil marketer trading locally to import crude oil and process at KPRL in line with its market share. Hence the 1.6 million tons base load requirement is shared to all local marketers. To cushion the refinery from undue competition from other refineries, the government introduced suspended duty on all finished products imported petroleum products into the country (Institute of Policy Analysis and Research, 2003).

Both crude oil and refined products for all marketers in the industry is sourced via an industry tender system co-ordinated by the Ministry of Energy and Supply Pipeline Co-ordinator. The industry tender system allows the industry players to import crude and refined petroleum products using the lowest bidder after the cargo volumes are determined based on the supply requirements. The tender system therefore allows a benefit to the country for the most competitive price available in the international market. Oil marketers are also free to import more refined product depending on their marketing requirements directly to individual terminals in Mombasa (Joint Kenya Industry Tender Agreement, 2002).

KPRL is a joint ownership between the Kenya government with 50% shareholding and the balance 50% Shell, BP and Chevron. It was commissioned in the early 70s and since then little capital has been invested for upgrading purposes. As a result the facility operates at below optimal efficiency compared to other refineries the world over resulting to products which are significantly higher in cost than the same grades imported from the Middle East. The only justification is that the existing refinery is a national strategic asset. (The Point - Bulletin of the Institute of Economic Affairs Issue No. 58: May 2005).

Kenya has no known oil or gas reserves. The Kenyan government is encouraging foreign interest in oil exploration and there is a modest upstream oil industry, the latest being of the shore around Lamu in the coast. It is endowed with other energy sources including wood fuel, coal, solar and wind power, much of which is untapped. The country's commercial energy needs are supplied by electricity, coal, fuel wood and oil-derived products.

The Oil Industry in Kenya is divided into four major marketing fronts namely retail, commercial, aviation and liquid petroleum gas (LPG). Retail focuses on marketing products to motorists at stations strategically located by the roadside. Commercial arm of the industry is concerned with marketing of fuel products to major consumers like factories (e.g. East Africa Breweries Ltd.), agricultural estates (e.g. James Finely Tea Estates) and smaller industries (e.g. Broadway Bakeries). The aviation business sells oil products to airlines and LPG is involved in marketing of liquid petroleum gas. LPG is marketed in bulk to industrial customers and hotels or in cylinders for household use (Petroleum Insight – Magazine of the Petroleum Institute of East Africa 1st Quarter 2007).

Despite the industry sourcing process via tender, the oil industry in the public eye is seen as a vertically integrated affair in which oil majors hold sway, and consumer prices are often increased uniformly across the board, with the marketing companies operating more or less like an unofficial cartel. This is because oil marketers are involved in all aspects of the business from procurement of the raw material (crude oil) to its refining and marketing through owning filling and service stations. The distribution channel is also the same, which means more or less similar storage and handling costs. (Petroleum Insight – Magazine of the Petroleum Institute of East Africa 1st Quarter 2007).

1.1.5 Liberalization of Kenya's Petroleum Industry

Prior to October 1994 Kenya's oil industry was government controlled with direct involvement in the sourcing, importation and distribution of petroleum products and a corresponding low level of private sector involvement. Seven major international oil companies were responsible for procuring and importing their own oil. These were Agip (K) limited, Shell & BP Kenya Ltd, Mobil Oil (K) Ltd, Kenol Kobil Oil Ltd and Caltex Oil Ltd.

In October 1994 the government decided to liberalize the petroleum industry as part of the energy sector reforms. Since then the industry has undergone significant changes in its attempt to be market driven. The liberalization was aimed at enhancing market forces by eliminating bottlenecks that provided fertile ground for the control of supply to remain firmly in the grip of a handful of multinational companies. The government liberalized procurement, distribution and pricing of petroleum products in the country. This was expected to result in a realignment of the market structure with a view to intensifying competition through the removal of the behaviour and structural barriers to entry. Previous to this milestone, it was mandatory to import sufficient crude oil volumes for processing at the Kenya Petroleum Refineries Limited (KPRL) to meet domestic demand as closely and economically as possible, and any importation of finished products was only allowed after it had been ascertained that it would be economically and financially imprudent to import an additional crude oil cargo to meet a small supply shortfall. This government control was done via National Oil Corporation of Kenya (NOCK), which was a department of the Ministry of Energy. In addition foreign exchange controls were also still in place, hence importation of crude oil was firmly in the government's knowledge and control (Institute of Policy Analysis and Research, 2003 SR No. 04/2003).

After de-regulation, the oil marketers were left free to import crude and fully refined products and set their retail prices based on market forces of demand and supply. The government, however, enacted a number of legislations to protect the resources it considered to be of strategic importance. Among these was Kenya Petroleum Refineries and to ensure its survival, legislation was passed to the effect that a minimum of 1.6 million tonnes of crude per annum, commonly referred to, as the base load would be processed through the refinery. This base load, at that point in time, represented 70% of the country's total demand. The balance of 30% could be imported as refined product. Also, to ensure that the government kept tabs on the market, NOCK was retained and its operations were widened to include retail marketing as well as managing of oil exploration activities (Report on Status of Petroleum

Sub-Sector in Kenya Considering an Appropriate Legislative Framework by Institute of Economic Affairs 2006).

Kenya Pipeline Company was also under threat in a liberalised market. The government therefore passed a law banning the primary transportation (bridging) of white oil products by road. The fuel tax structure remained the same after liberalisation, with the high value automotive products attracting high taxes and the kerosene used for lighting and cooking by poor households attracting lower taxes. The only new law regarding pricing was that retailers were expected to prominently display their prices at the point of sale (Report on Status of Petroleum Sub-Sector in Kenya Considering an Appropriate Legislative Framework by Institute of Economic Affairs 2006).

The oil industry sector remained fairly unchanged for about three years after de-regulation, with the six major oil companies continuing to dominate the market. This was probably because the laws governing the importation and marketing of oil were generally obeyed. Thereafter, around 1997/8, there was a proliferation of new entrants in the market. The government started to relax some of the rules to help the new "indigenous" entrants, for example, by removing the requirement to process 70% through KPRL for companies with market share of 1% and below. The small independents were also not required to contribute to the dead stock in the pipeline. This also allowed the independent oil companies entry into the market through purchasing of products from the more established majors. There was also free entry into the pipeline system, which allowed them the ability to transport their product inland. By year 2000, there were over 100 registered companies. (Paper on Issues Management Workshop, Nairobi 30th November to 01st December 2005).

Sourcing of product for the country is through the open tender system, which guarantees the procurement of products at the most competitive prices, and hence saving the country the much needed foreign exchange. This also ensures the smaller players benefit from economies of scale since they would otherwise be forced to import small cargoes in line with their market shares. (Paper on Issues Management Workshop, Nairobi 30th November to 01st December 2005).

1.2 Research Problem

Competitive strategies employed by firms in their operations vary widely. The current operational set-up in Kenya's oil industry after liberalization has created a turbulent and highly competitive market condition. To ensure survival and sustainability in the market place the independent oil companies require to adopt a competitive strategy.

Researches carried out so far have concentrated on competitive strategies adopted by the major oil companies in Kenya, the majority being case studies. The major oil companies have large internationally backed operations with established refined operating procedures and competitive strategies rolled out across affiliates. The only difference tends to be the operating market conditions within different countries and continents. Markets may be liberalized or controlled and at various stages of development depending on the country. These competitive strategies include marketing portfolios with adequate human and capital resources, social responsibility activities, brand images, convenience retailing, market share position and length of time in the industry – some of the multi nationals have been in Kenya since the 1920s. In addition, the major oil companies in Kenya have had a long association with Kenya Petroleum Refineries Limited as a supply focal point and more recently direct importation after liberalization. Some are actually shareholders of the refinery.

The researcher notes that independent oil companies in Kenya entered the market since liberalization and have competed with the majors with a good level of success acquiring upto 25% market share. However, their mode of operation and platform is completely different and hence they apply different competitive strategies in the market place. Though previous researchers have studied various elements of independent oil companies, some gaps exist due to lack of information, resources and the lack of direct supply logistics. No studies have been done on competitive strategies and relationship to performance. Therefore no researcher had tried to identify how competitive strategies like pricing, location, brand and image, quality control and customer focus have been used by independent oil companies to influence performance.

Given their small size, newness to the market, weak asset base, low market share and weak forward and backward integration, the independent oil companies are unlikely to succeed if they use the competitive strategies used by their older resource endowed and large rivals. Moreover, these independent dealers have to contend with the problem of age and newness, which have dealt the death blow on many small firms. Despite this background, it is sticking that no research has been conducted to determine the competitive strategies used by the independent oil companies in Kenya that have enabled them survive in the highly competitive market. The proposed study has been motivated by the need to fill this gap in knowledge.

The research will identify the influence of current market scenario to the competitive strategies adopted. The research seeks to identify the most influential of the generic competitive strategies to independent oil companies and relationship to performance.

1.3 Research Objective

i) To establish the competitive strategies employed by Independent Oil companies in Kenya.

ii) To establish the relationship between the competitive strategies and performance.

1.4 Significance of the study

The results of the study will be important for the following groups of people:

Entrepreneurs. For anyone willing to enter the oil industry in Kenya and possibly any other that is presently controlled by a few players but liberalized. The study will show the important and relevance of competitive strategy planning and its correlation if any to performance.

Existing Oil Companies both The Majors and Independent. The study will help any company operating in the oil industry in Kenya understand the relationship of its competitive strategy to potential performance

Academia. Apart from contributing to the body of knowledge this study will stimulate future scholars to further research on competitive strategies planning for small indigenous companies in Kenya

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategic Management

Strategic management is the process of strategy formulation, implementation, evaluation and control. Strategic management is necessary for managing the relationship between an organization and its environment. It enables an organization to effectively match its internal capabilities with the environment. In this process the organization matches its strengths and weaknesses to the environment opportunities and strengths to create a competitive advantage. All organizations are without exception dependant on the environment for input and outputs. An organization therefore has to relate effectively with the environment for survival and prosperity.

Strategic management is the highest level of management role often led by the Chief Executive Officer with the senior managers of a company. They require to formulate well thought out plans based on the company's resources and its operating environment to steer the organization in the right direct, achieving required success. The process entails setting strategic objectives, which is a top-down to provide guidance to lower level managers and units. The strategy needs to support company wide interests and be cascaded downwards for implementation (Johnson & Scholes 2002).

Pearce and Robinson (2007) defines strategic management as a process that comprises some critical tasks in planning, directing, organizing and controlling of a company's decisions and actions. This entails formulating the company's mission, including broad statements about its purpose, philosophy and goals. Managers then need to conduct an analysis that reflects the company's internal conditions and capabilities, assess the company's external environment, including both competitive and external contextual factors. The next step in strategic management is to analyse the company's options by matching its resources with the external environment and identify the most desirable options by evaluating each option in light of the company's mission. This assists to select a set of long-term objectives and grand strategies that will achieve the most desirable options. Such long term objectives can only be achieved by developing annual short-term objectives compatible with the long-term strategies. By cascading these objectives it becomes possible to implement the strategic choices by means of budgeted resource allocations in which the matching of tasks, people, structures, technologies and reward systems is emphasized. Finally strategic management requires an evaluation of the process success as an input for future decision making.

2.2 Competitive Strategies

Competitive advantage is the measure of a firm's competencies and performance against the factors prevailing in the firm's external environment. Competitive strategy is all about identifying and exploiting opportunities to gain competitive advantage. Mergers, acquisition, and diversification are some corporate strategies that can help gain competitive advantage.

Pearce and Robinson (2007) state that the essence of strategy formulation is coping with competition. In today's business world, intense competition is neither coincidence nor bad luck. The state of competition in an industry depends on five basis forces and it is the collective strength of these forces, which determines the ultimate profit potential of an industry. It ranges from intense in industries like tyres, metal cans and steel where no company earns spectacular returns on investment, to mild industries like oil field services and equipment, soft drinks and toiletries where there is room for quite high returns. Knowledge of the powers that shape competition in an industry provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the position of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

Competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation. Every industry has an underlying structure, or a set of fundamental economic and technical characteristics that gives rise to competitive strategies. The strategist, wanting to position his or her company to cope best with the industry environment or to influence that environment in the company's favour, must learn what makes the environment tick.

2.2.1 Generic Competitive Strategies

The long term or grand strategy of a firm must be based on a core idea about how best it can compete in the market place. The popular term for this core idea is generic strategies.

According to Michael Porter (1998) a firm can use three generic strategies to seek long-term competitive advantage.

Low Cost Leadership

In this case, a firm sets out to become *the* low-cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate in related industries - the firm's breadth is often important to its cost advantage. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology and preferential access to raw materials. If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns (Michael Porter 1998).

Independent oil companies in Kenya strive to ensure low cost leadership in their operations as a way of ensuring their focus to favourable pricing in the market. Typically the major oil companies operate at certain set standard, which makes it difficult for them to compete with the independents (Report on Emergence of Independent Petroleum Dealers in Kenya No. 04/2003).

Differentiation

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The means for differentiation are peculiar to each industry. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors. In construction equipment, for example, Caterpillar

Tractor's differentiation is based on product durability, service, spare parts availability, and an excellent dealer network. In cosmetics, differentiation tends to be based more on product image and the positioning of counters in the stores. A firm that can achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating. (Pearce and Robinson 2007).

In the petroleum industry, differentiation of the core products is minimal as they all the same being from one source. Independent oil companies in Kenya are hence disadvantaged compared to the majors who are able to invest in such services as convenience retailing, car wash services and sophisticated lube bays which, are the major areas used in differentiation strategy.

Focus

This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment of group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimising its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall. The focus strategy has two variants. In *cost focus* a firm seeks a cost advantage in its target segment, while in *differentiation focus* a firm seeks differentiation in its target segment. If a firm can achieve sustainable cost leadership (cost focus) of differentiation (differentiation focus) in its segment and the segment is structurally attractive, then the focuser will be an above-average performer in its industry (Michael Porter 1998).

Applicability of this strategy to independent oil companies in Kenya can be linked to cost focus. In this case the firm seeks to continuously focus on minimizing costs within a particular segment of the market (Report on Emergence of Independent Petroleum Dealers in Kenya No. 04/2003).

Stuck In The Middle

A firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle." It possesses no competitive advantage. This strategic position is usually a recipe for below-average performance. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiators, or focusers will be better positioned to compete in any segment. The benefits of optimising the firm's strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost leadership of differentiation). Sometimes a firm may be able to create two largely separate business units within the same corporate entity, each with a different generic strategy (Michael Porter 1998).

Pursuit of More Than One Generic Strategy

Each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage, combining the type of competitive advantage a firm seeks and the scope of its strategic target. Usually a firm must make a choice among them, or it will become stuck in the middle. Sometimes a firm may be able to create two largely separate business units within the same corporate entity, each with a different generic strategy. A good example is the British hotel firm Trusthouse Forte, which operates five separate hotel chains each targeted at a different segment. However, unless a firm strictly separates the units pursuing different generic strategies, it may compromise the ability of any of them to achieve its competitive advantage. A sub optimised approach to competing, made likely by the spillover among units of corporate policies and culture, will lead to becoming stuck in the middle (Michael Porter 1998).

2.2.2 Five Forces of Competition

Michael Porter (1979) outlines the five-forces framework one approach to understanding industry competition. It is the most popular and relevant for open market economies.

Threat of New Entrants

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The seriousness of the threat of entry depends on the barriers present and the reaction from existing competitors that the entrant can expect. Barriers consist of economies of scale, brand identity and large capital requirements, which may take time to recover. Presence of switching costs, access to distribution channels and government policy are also possible limitations to market entry.

The key issues relating to threat of new entrants affecting Kenya's oil industry are high capital employed, high cost of export business, refining inefficiency, economies of scale, customer loyalty and the idea of product quality and pricing strategies (Report on status of petroleum sub-sector in Kenya 2000).

Rivalry within the Industry

Pearce and Robinson (2007) defines an industry as a collection of firms that offers similar products or services – those that customers perceive to be substitutable. Rivalry among existing competitors takes the familiar form of competing for positions especially in market share and profitability.

According to Michael Porter (1979), a factor that affects rivalry within the industry is if the product or service lacks differentiation or switching cost, which lock in buyers and protects one competitor from attacks on its customers by another.

Kenya's liberalized oil industry has witnessed intense rivalry principally due to lack of much differentiation in the products sold and a fairly low market growth rate.

Threat of substitute products

Michael Porter (1979) defined a substitute product or service as that of other industries that can be used to substitute the industry's products. An example is gas in substitute for electricity within a domestic household. The power or threat of substitutes depends on factors such as relative price performance of substitutes and buyer propensity to purchase the substitute.

Kenya's energy sector is dependent on petroleum products, solar power, biogas, wind and electricity. Petroleum meets about 70% of the need. Therefore substitutes for the industry offer no significant threat to profitability.

Supplier power

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can squeeze profitability out of an industry, which is unable to recover cost increases in its own prices. (Pearce and Robinson 2007).

In the Kenya oil industry set-up, major suppliers peg prices to the Organization of Petroleum Exporting Countries (OPEC) and normally purchase oil products from the trading buying arms. This offers little flexibility in influencing supplier prices and power. Though there is opportunity to purchase and import directly, the independent oil companies often get supplies for their requirements from the majors.

Buyer Power

According to Michael Porter (1979) customers likewise can force prices down, demand higher quality or more service, and play competitors against each other all at the expense of industry profits. A buyer power is powerful if concentrated or purchases in large volumes especially if heavy fixed costs characterize the industry.

In the Kenya oil industry set-up only industrial or commercial high volume players have strong influence on pricing. The independent oil companies are in this bracket as they purchase from the majors. Retail customers have hardly any bargaining power and they have to buy fuel at prevailing pump prices.

From the above it is clear that out of Porter's five forces model, buyer power, rivalry within the industry and threat of new entrants are the key ones that affect the independent oil companies in Kenya.

Another key item linked to competitive strategy is pricing strategy. To sustain growth and drive economy, company executives need to proactively build a pricing capability that can effectively deal with powerful procurement groups, aggressive pricing from competition, ensure lower costs and high quality to sustain customers (John Hogan, 2006).

According to Peace and Robinson (2007) another approach to competitive strategy that firms use is Operations Excellence. This is a strategy specific to the production and delivery of products and services. Such a company will attempt to lead its industry in price and convenience by pursuing a focus on lean cost, reducing overhead and eliminating the intermediate production steps. The firm will also seek ways to reducing transaction costs and optimising business process across functional and organizational boundaries. The focus is on delivering products or services to customers at competitive prices with minimal inconvenience.

2.3 Firm Performance

Highly competitive environments, globalisation, ever-growing amounts of performance data and increasing pressure to do more with less have made it imperative for firms to be demand driven. It is no wonder that measuring, reporting and overall business performance are hot topics. Companies in every industry are seeking ways to get a clear, accurate view of operational performance. Essentially, they need an effective, reliable approach to connect operational performance to financial results (Rod Clarke, 2007).

The performance of companies in the modern business operating environment can be judged using various parameters. The ultimate goal of a firm employing various competitive strategies is to gain an edge over its competitors hence improve performance. Performance is judged using both financial and non-financial or behavioural parameters. Johnson Scholes & Whittington (2005) describe firm performance based on key success factors. Financial factors include state of the firm equipment or facilities, return on capital employed, production and operations costs, prices or rates of produce released to the market, volume of operations or sales i.e. market share, financial cash flow, technology, profitability, and research and development. Behavioural parameters include management style, human resources, product quality, service quality, customer care, firm's image or reputation, marketing effectiveness, technological status, location and processes or systems.

In the past firm performance was generally judged using financial parameters only. However, it has become increasingly evident that the human resources and management factors are key drivers and contribute greatly to overall financial performance. Public image and responsibility to the society have also increasingly become critical factors to overall firm performance.

According to Eric M. Olson (2002) many managers nowadays adopt a balanced scorecard approach to measuring performance. This position is true for all industries and the most successful firms emphasize the measures and perspectives e.g. customer satisfaction index, internal business processes, innovation and profitability.

2.4 Competitive Strategy and Performance

According to Pearce and Robinson (2007), sound competitive strategy incorporates efforts by the firm to be competent and to excel on all key success factors. The link between competitive strategy and performance of companies has remained elusive. It has not been possible to establish a causal relationship between the two. However, companies that engage in formal long term strategic planning have historically outperformed informal planners. Formality is the degree to which participants, responsibilities, authority and discretion in decision-making are specified. Greater formality is generally positively correlated with the cost, comprehensiveness, accuracy and success of planning (Pearce and Robinson, 2007). However, it would therefore naïve to assume that formal strategic planning is the sole cause of success in firms. Firms may be using other management practices that contribute to success.

Ansoff et al. (1970) urged that long range competitive strategic planning does pay. Using the strategic management approach, managers at all levels of the firm interact in planning and implementation. An accurate assessment of the impact of strategy formulation on organization performance requires not only financial evaluation criteria but also non-financial behaviour based issues. Promoting positive behavioural consequences also allows a firm to achieve its financial goals. Strategy formulation activities ensure problems are minimized and ensures that group based decisions come up with the best available alternatives. The involvement of employees ensures ownership of these strategies with greater motivation for implementation. Gaps and overlaps in activities are reduced, thereby maximizing productivity since strategy formulation clarifies differences in roles. At the same time resistance to change is minimized. Strategy formation may at times involve a change management process, and though the participants may prefer their own rather than authorizing decisions greater awareness to the parameters that limit options is more likely to be acceptable.

Greenley G (1986) concluded that though formal planners tended to outperform informal or non-planners in financial success, studies linking strategic planning and performance are still inconclusive.

According to Rod Clark (2007), research on how to drive financial performance through competitive strategies and operational measures, there are seven core operational measures that can be leveraged to fine tune a company's enterprise-wide business process and achieve a higher return on capital employed. These core values affect financial state of the company in addition to its overall performance. The seven core measures, from design through manufacturing to distribution, are: demand forecast accuracy, the perfect customer order, lead-time reduction, velocity, right first time (quality), schedule achievement and on-time new product introduction. All these measures are key performance indicators of how well a company is able to operate a demand-driven supply network and let customer demand drive its entire enterprise, a business objective that, for many firms, has taken on increased importance in today's global economy.

CHAPTER THREE: RESEARCH METHODOGY

3.1 Research Design

A survey research design was used in this study. The choice has been necessitated by the nature of data to be collected, which will be cross sectional. It also allows for comparative analysis in order to obtain rational conclusions.

3.2 Population

The population of interest for the study comprised independent oil companies within major towns in Kenya and highway routes, which have been in operation since deregulation of the industry. According to the registrar of companies' records, there are over 110 registered independent oil companies in Kenya. However, only 27 of these companies are involved in active trade. For this reason a census survey was used aiming to get responses from all the active independents.

3.3 Data Collection

This study used primary data, which was obtained through the use of a structured questionnaire. The questionnaire is attached in appendix I. The questionnaire is divided into two parts. The first part captures information about the firm and the questionnaire respondent. Information about the questionnaire respondent was used judge the level and quality of information provided. The second part of the questionnaire focuses on competitive strategies used by the companies and performance data in sales volume. This was compared to other published data for the sake of checking consistency and facts i.e. (Kenya Pipeline Company and Kenya Petroleum Refineries Limited data). Interviews were conducted in the event that clarity is required from the respondents. The respondents consisted mainly of top management and middle level management, but with some responses also from employees and customers depending on the company size.

3.4 Data Analysis

The nature of the data collected was qualitative. It was analysed qualitatively using the conceptual content analysis and then linked to volume performance of the companies studied.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

Presented in this chapter are the findings of the study. The data were analysed using the Windows based Statistical Package for Social Science version 11.5. The output was then processed thematically and organized into subtopics that reflect the different study questions that were posed to respondents in the questionnaires. Demographic and other general background information about respondents who participated in the study are presented first, followed by findings on the research objectives.

Response rate

27 questionnaires were distributed and the same number was returned, representing a response rate of 100%. The respondents completed all items in the questionnaires.

4.2: Gender and age of respondents

Figure 4.1: Distribution of Respondents by Gender

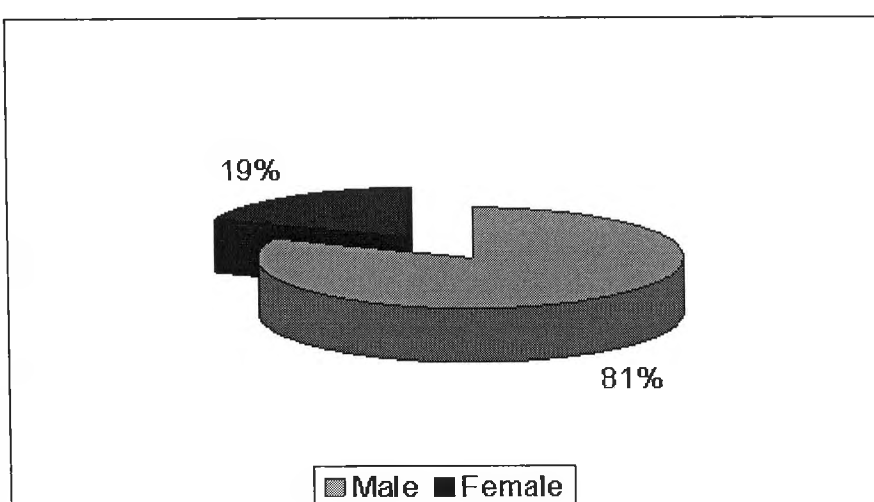


Figure 4.1 reveals that the majority of targeted population 81% was made up of men while the other 19% consisted women. All were at the level of management. This is characteristic of developing countries which Kenya is part of. The Kenyan workforce is associated with male dominance due to more male enrolment and completion of education as compared to women who are hindered from pursuit of their careers due to factors like early pregnancies and culture.

Figure 4.2: Distribution of Respondents by Age in Years

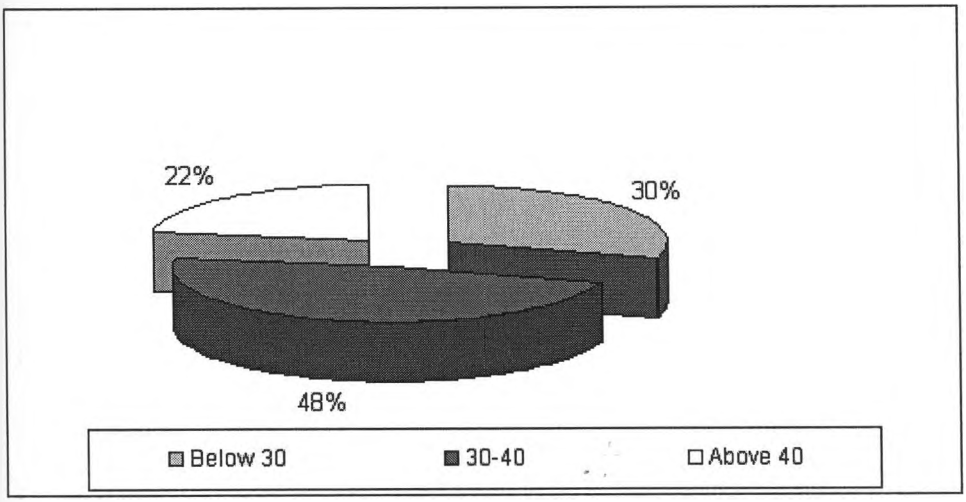
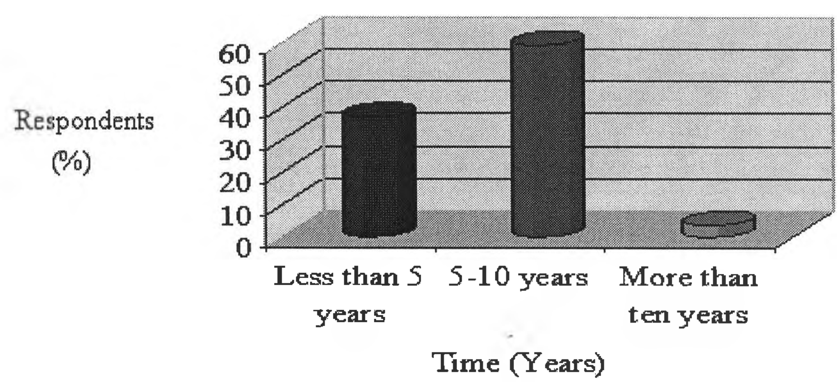


Figure 4.2 shows the age distribution of respondents in the research. A significant majority of respondents (48%) were in the age bracket of 30-40 years. 30% were below 30 years of age and 22% above 40 years. This is true to the fact that senior positions in any company are usually given to people with a lot of experience in the company's area of business or those who are well educated in the field. This leaves less room for very young individuals since both characteristics take a lot of time to acquire. It also shows another trend of fewer people above the age of 40 years in management positions compared to the younger brackets.

4.3: Number of years worked in the organization

Validity of information from targeted respondents was dependent on the time she or he had worked for the organization. The strategies used and their extent of use could only be conversant with an employee who had been with the organization long enough. This study therefore boasts of knowledgeable and informed respondents since a significant majority (59%) had worked for their companies between 5-10 years. The information is illustrated in figure 4.3 below:

Figure 4.3: Distribution of the Respondents by Length of Service in the Companies



4.4: Respondents Level of Education

Table 4.4 Level of education attained

Education levels	Frequency	Percent	Cumulative Percent
O'level and below	2	7.4	7.4
A' level	9	33.3	40.7
Diploma	11	40.7	81.5
University	5	18.5	100.0
Total	27	100.0	

As shown in table 4.4 the greater majority (41%), of the respondents, were holders of diploma certificates followed by those who had attained A- level education at 33%. University graduates came third at 19% of the total study sample. Very few (7.4%) had ordinary or lower certificates.

4.5 Performance of Independent Oil Companies in Kenya

Table 4.5: Sales and Market Share of Independent Oil Companies

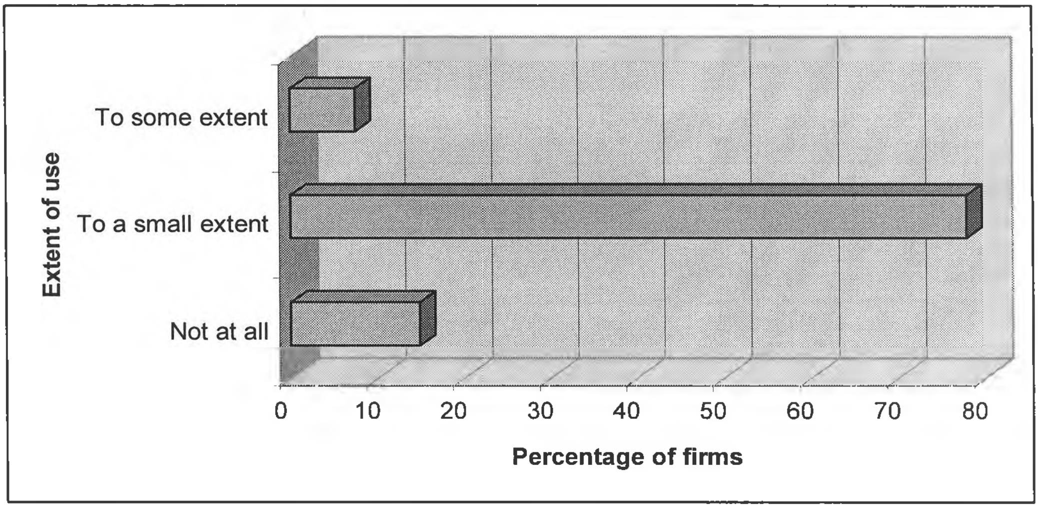
INDUSTRY DATA: 2006 VOLUMES AND MARKET SHARES OF INDEPENDENT OIL COMPANIES IN KENYA			
	COMPANY	**Sales Volume (M3)**	**Market Share %**
1	ADDAX	1,299	0.06
2	BAKRI	12,073	0.58
3	DALBIT	28,945	1.38
4	FOSSIL	52,887	2.53
5	GALANA	26,547	1.27
6	GAPCO	47,175	2.25
7	GLOBAL PETROLEUM	3,045	0.15
8	GULF STREAM	44,911	2.15
9	HASHI EMPEX	929	0.04
10	HASS	68,052	3.25
11	INTOIL	6,611	0.32
12	JADE	1,670	0.08
13	KEROPORT	3,121	0.15
14	MAFUTA	6,789	0.32
15	METRO	40,822	1.95
16	MID OIL	30,627	1.46
17	MOGAS K LT	17,737	0.85
18	MOIL	20,116	0.96
19	MUSA PETRO	876	0.04
20	OILCOM	23,261	1.11
21	PENTOIL	31,890	1.52
22	PETRO	22,415	1.07
23	PETROPLUS AFRICA	24,678	1.18
24	RIVA OIL	2,039	0.10
25	ROYAL	1,918	0.09
26	TECAFLEX	2,526	0.12
27	TRITON	120	0.01
	GRAND TOTAL (Industry)	2,092,316	25.00

Source: Kenya Pipeline Company

4.6 Competitive Strategies used by independent oil companies in Kenya

4.6.1: Pricing strategy

Table 4.6.1: Use of Pricing as a Competitive Strategy



It is evident from table 4.6.1 that a majority of the companies (79%) use the pricing strategy to a small extent implying it is insignificant. This, though, could be due to the nature of the product whose origin is external and significantly controlled by external suppliers who determine pricing. A well chosen price does three things:

Achieve the financial goals of the company (e.g.: profitability)

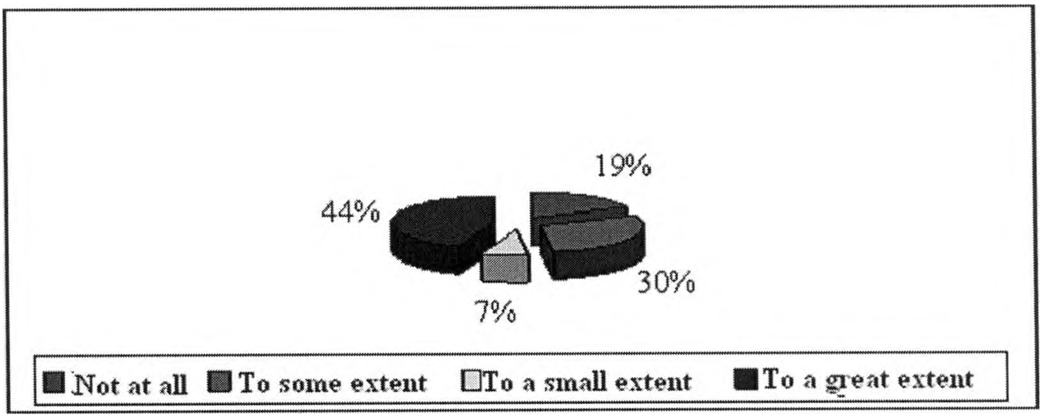
Fit the realities of the marketplace (will customers buy at that price?)

Support a product's positioning and be consistent with the other variables in the marketing mix.

4.6.2: Segmentation Strategy

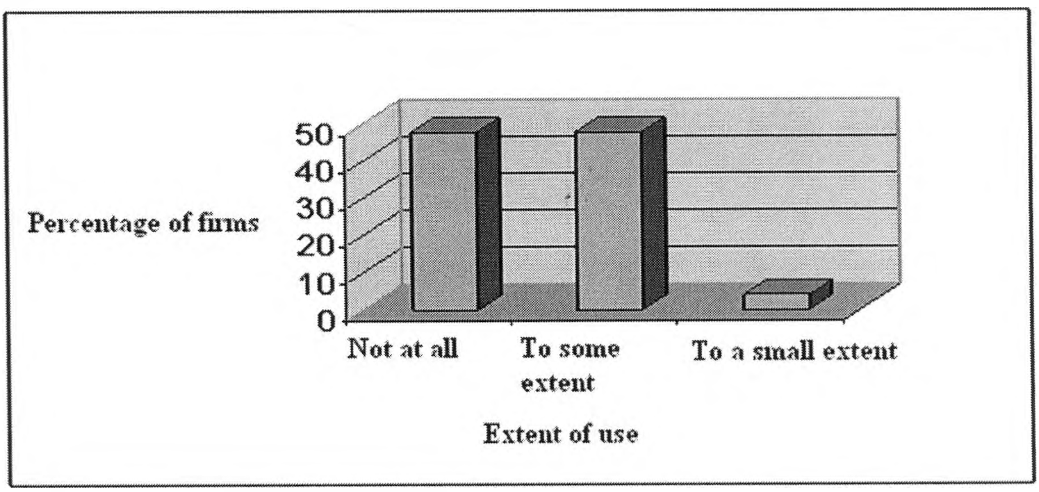
Figure 4.6.2 below shows that a relatively large number of independent oil companies use segmentation as a competitive strategy (44%) to a large great extent. 30% use the strategy to some extend and 19% to a small extent. 7% of independent oil companies use segmentation to a very small extent. This implies that independent oil companies have over the years become sensitive to customer needs within certain markets and have responded accordingly.

Figure 4.6.2: Use of Segmentation Strategy



4.6.3: Cost leadership strategy

Figure 4.6.3: Use of Cost Leadership Strategy



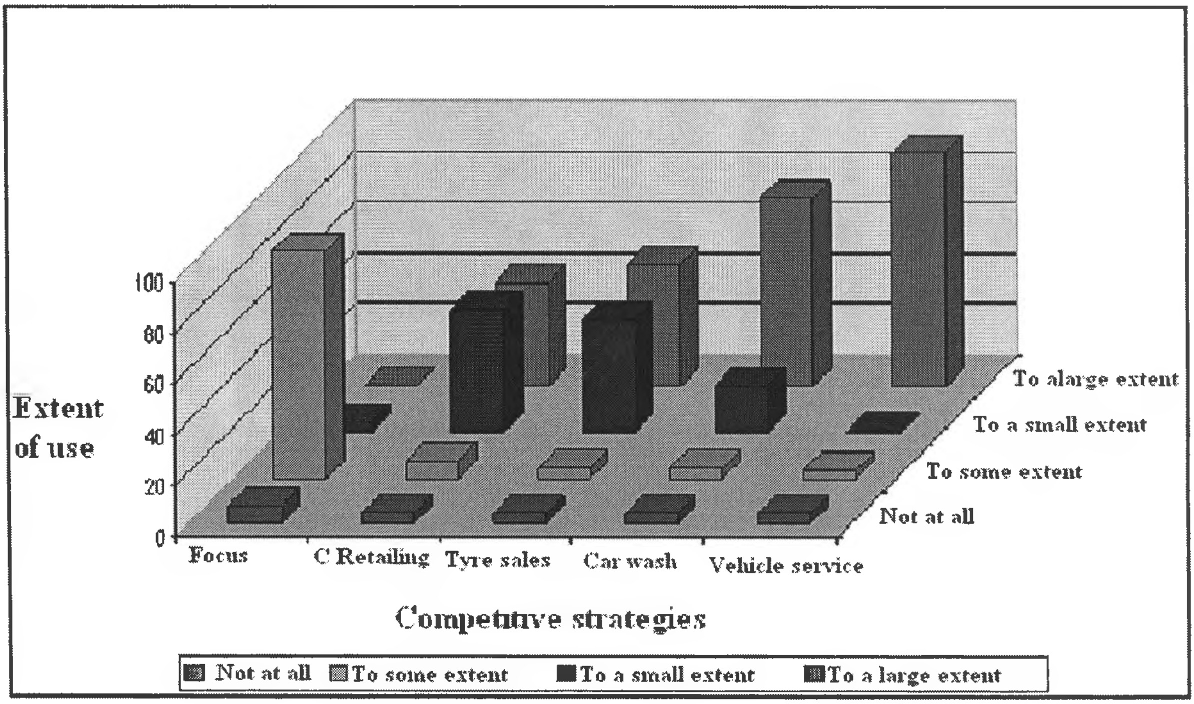
The study reveals that independent oil companies in Kenya do not quite use cost leadership in gaining competitive advantage over their rival. As shown in Figure 4.6.3, close to 50% of the firms do not use the strategy at all, while the others 50% or so use it to some extent or small extent. These companies do not enjoy large economies of scale in order to be cost leaders and hence they pick prices from large multinational companies like Shell, BP, Kobil and many others. As a result the strategy is not popular with independent oil companies in Kenya.

4.6.4: Differentiation strategy

This is a strategy uncommon among the companies in this study. Almost all the companies do not use differentiation as a strategy. This could be explained by the fact that the product is practically the same and consumers are not likely to perceive differences in quality among companies.

4.6.5: Other competitive strategies used by the companies

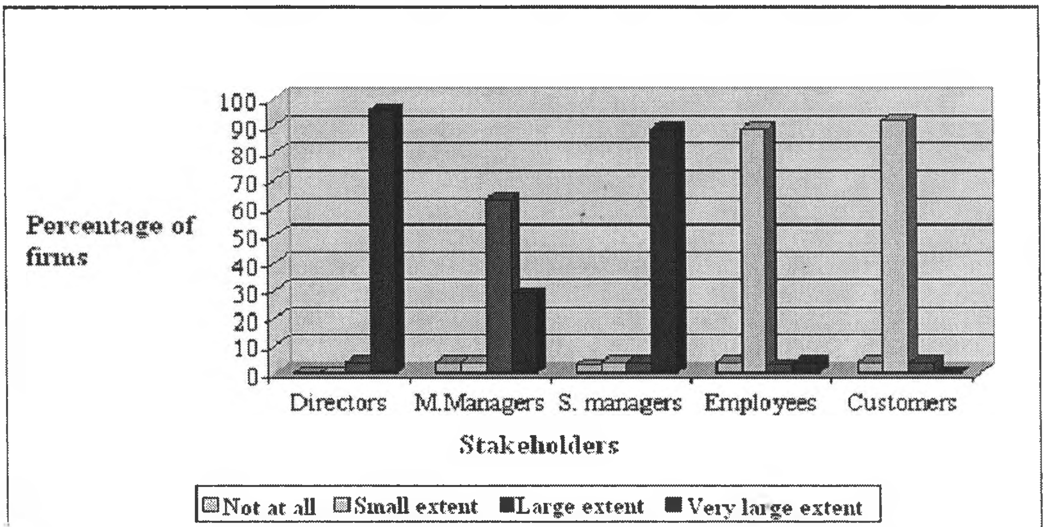
Figure 4.6.5: Use of other strategies



A part from the strategies in the previous discussion, these companies also apply the other competitive strategies to the extent depicted in the figure 4.6.5 above. The companies seem to rely more on convenience retailing, tyre sales, carwash and vehicle service strategies. As can be seen in figure 4.6.5, these strategies are entirely controlled and the decision on whether or not they should be practiced barely rest on the companies. This is so despite the fact that their effect on sales volume is minimal as compared to other strategies like pricing which are at the control of suppliers. Convenience retailing is a strategy at the discretion of the Kenyan companies and which has been successfully and widely practiced. It involves presenting the product to consumers at the most suitable locations for access. Most of the independent oil companies are situated along major roads in Nairobi and this is definitely convenient for motorists who happen to be the majority of customers. Vehicle service and parking is also appropriate especially for Matatu drivers who leave their vehicles to spend the night at the petrol stations waiting to resume work the next day. After the service and night most of the drivers fuel at the station which is significant in contributing to sales. Some of the stations offer free windscreen cleaning and a small fee for carwash in 0order to attract more customers

4.7: Strategic Planning by independent oil companies in Kenya

Figure 4.7: Participation by Different Stakeholders in Strategic Planning



Planning is the most critical stage that determines the success or failure of a competitive strategy. Integration of all stakeholders is bound to attract different ideas that facilitate and ensure success. The companies studied, as shown in figure 4.7, employ ideas of their customers to a very small extent (92%) in their strategic planning. This is followed by a large proportion (89%) of employees who participate to a small extent. Directors and senior managers seem to be the custodians of strategy planning with their involvement being very large at 92% and 89% respectively.

4.8: Evaluation and control of strategy implementing by independent oil companies in Kenya

4.8.1: Use of sales volume

Table 4.8.1: Use of sales volume to evaluate competitive strategy

Extent of use	Frequency	Percent	Cumulative Percent
To a great extend	2	7.4	7.4
To a very great extend	25	92.6	100.0
Total	27	100.0	

Results in table 4.8.1 indicate that sales volume is the favourite tool used by independent oil companies in Kenya to implement their competitive strategy as compared to others. As shown 93% of the companies use sales volume to a very great extent as an evaluation and control mechanism for implementing competitive strategy. This is most likely due to the ability of sales volume to reflect directly a company's performance in the market.

4.8.2 Use of customer satisfaction index

Table 4.8.2: Use of customer satisfaction index to implement competitive strategy

Extent of use	Frequency	Percent	Cumulative Percent
Not at all	1	3.7	3.7
To a small extend	23	85.2	88.9
To some extend	1	3.7	92.6
To a very great extend	2	7.4	100.0
Total	27	100.0	

Customer satisfaction index (CSI), which measures their willingness to come back for the same product or service as a result of good handling and offers is rarely used by these companies. The study shows that 85% of the companies use CSI to a very small extent.

4.9 Impact of competitive strategies on company performance

The study considered market share of target companies as an indicator of performance, therefore external validity of the connection between performance and competitive strategy requires more studies using other performance indicators. The level of use of competitive strategy was measured on a likert scale of 1 to 5. One indicates a very low level of using the competitive strategies by the company whereas 5 refer to a very high use of these competitive strategies. The available market share and volumes data from the 27 independent Kenyan oil companies was used to perform the correlation analysis.

Table 4.9: Correlation between different levels of use of competitive strategies and performance

Correlations

		Level of use of competitive strategy	Market share (%)
Level of use of competitive strategy	Pearson Correlation	1	.734**
	Sig. (2-tailed)	.	.000
	N	20	20
Market share (%)	Pearson Correlation	.734**	1
	Sig. (2-tailed)	.000	.
	N	20	20

**. Correlation is significant at the 0.01 level (2-tailed).

From table 4.9 above there is significant evidence indicating a relationship between competitive strategies and company performance. The relation according to this study is in the positive direction. That is, as more of the competitive strategies are incorporated into running the oil companies, there is remarkable increase in market share. This can be deduced from the fact that customers' needs are met and competitors driven away leading to the increase in market share. Other than the correlation being positive it is also relatively high (73.4%) in relation to 100%, which is a measure of perfect positive correlation between any two variables in bivariate correlation.

The role of competitive strategy in market acquisition and expansion as shown by this study is critical to these independent Kenyan oil companies. The study reveals that generally firms that employed some form of competitive strategy tend to perform better than the ones, which do not. In addition, those that actually planned and implement competitive strategies are few but even tend to perform better. A firm's competitive strategy had a significant impact on its sales performance, i.e., sales volume and growth. Three strategies, i.e., low pricing, convenient retailing and vehicle service were of particular importance. Those companies at strategic locations like busy roads clearly outperformed their counterparts whose locations do not guarantee convenience to their customers. This applies to companies in remote areas of the city like backstreets. Prospectors focusing on pricing and vehicle service also happened to attract customers even from as far as 10 kilometres away. Those not favoured by the location strategy can therefore effectively overcome their competitors by offering lower product price and quality vehicle service, which indeed proved sufficient.

4.10: Challenges experienced by independent oil companies in implementing competitive strategy in Kenya

Respondents in the study suggested various challenges they face in competitive strategic planning. Majority (75%) indicated that lack of proper formal knowledge, inadequate resources and established systems within their organizations are a major challenge. 15% of the respondents observed lack of involvement in the process by senior managers or shareholders of the companies meant that their ideas have no audience and hence the challenge. A small fraction (10%) did not respond.

Pursuit of competitive advantage over other companies is an exercise that often involves substantial financial costs to the company. As a result, beneficiaries are compelled to set aside money for such adventures. For small companies with a little capital base, which is the case among independent oil companies in Kenya, the whole venture becomes either a big burden to the company or inaccessible all together. Consequently, the local companies find it difficult to compete with the well established multinational competitors even at a local level.

Although some local companies try and invest in some of these competitive strategies, their counterparts are always quick to copy and implement the same business ideals, which become irrelevant in a short time before realizing their intended purpose. This is a loss of both money and time and hence competition becomes complicated.

Most of the local companies rely on cheap unskilled employees with little education. This restricts their access to ideas, which would otherwise not have been the case if highly informed employees were integrated into decision making and strategy formulation and implementation.

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1: Discussion

Majority of independent oil companies in Kenya respond to competition uncertainty by imitating others, usually their competitors. However, in an increasingly discontinuous environment, questioning the fundamental makeup of their conventional mindsets is crucial for survival against the well established international oil companies which operate in the Kenyan market today and especially to advance strongly into the future. The companies must strive to be alert on the potentially dramatic reinvention that is ripe in the Kenyan market so that such imminent changes can be appropriately and timely interpreted for rapid adaptation and co-shaping new customer value with other companies. Company survival in today's world depends on being ahead of the competitive pack as far as business model thinking and adaptation are concerned. This study reveals that independent oil companies in Kenya have used convenience retailing, vehicle service, car wash and tyre sales to improve their competitiveness. This seems to be in line with the Kenyan market needs and has certainly assisted them do much better in sales volumes.

According to results obtained from this study, the performance of independent oil companies in Kenya depends critically on the design and implementation of their competitive strategy. This strategy must take account of the industrial environment facing the companies, the position and likely strategies of their rival firms, which in this case happen to be large multinational companies operating not only in Kenya but in other parts of the world, and the firm's own capabilities and goals. Generally application of competitive strategy has positive results on sales volumes, market share and subsequently profitability.

Competitive advantage measures the competencies and performance of the independent oil companies against the factors prevailing in the companies' external environment. Competitive strategy is all about identifying and exploiting opportunities to gain competitive advantage. It is imperative for the independent oil companies to conduct the industry analysis wherein the moves and counter moves of the competing firms are studied. Such analysis will help the companies to ascertain their position vis-à-vis the competing firms and chalk out the competitive strategy.

The companies in this study are price takers, that is, the price of oil they sell is determined by market conditions and not by individual decisions of the companies. The implication here is therefore that there is effectively no product differentiation in the market and no one company's sales constitute a large percentage of this market. The price of oil in this type of market, which independent Kenyan oil companies operate in, is determined by aggregate industry supply and demand. Because these companies are price takers, the demand facing an individual independent oil company is horizontal, that is, the companies' decisions about levels of output have a negligible impact on overall industry supply and thus a negligible impact on the market determined price. Pricing thus becomes a tricky strategy for independent oil companies operating in the Kenyan market.

A firm pursuing a cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors. Cost-leadership strategies can be implemented by many or almost all firms in the oil industry. However, according to this study it is not a strategy used by the independents. This is perhaps due to the fact that no independent oil company in Kenya faces a cost disadvantage in imitating a cost-leadership strategy, and therefore being a cost leader does not generate a sustained competitive advantage for a particular company. It is worth noting that the ability of a valuable cost-leadership competitive strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate by competitors which of course is not the case for independent oil companies in Kenya.

According to this study, the independent oil companies have also adopted segmentation as a strategy. This is perhaps because most are located quite close to the more established major oil companies on any road or highway. It then becomes imperative for them to use segmentation irrespective of location but aimed at attracting customers within the specific area. This seems to have borne fruit since these independent oil companies have gained considerable market share from their older and more established competitors.

Competitive strategy chosen by these oil companies to pursue competitive advantage over their rivals identifies the manner with which management intends to compete successfully in its product markets and provide superior value to customers. The company's competitive environment influences its ability to successfully carry out a chosen strategy. For example, a low-cost provider strategy works best when price competition among rival firms is especially intense and when the industry's product is standardized. Alternative competitive forces allow a product differentiation strategy to be effective. Examples include diverse needs or uses of oil, or relatively few competitors pursuing a similar differentiation approach.

5.2: Conclusions

How well the companies are managed seems to be the preoccupation of most of the managers who participated in the study. It is time for them to bring their thinking together and assess the overall competitive strengths of their companies. Assessing competitive strength shows that one has the management and business skills to exploit long-term competitive position of the company. In today's business world, managers need to focus on how the company's products or services will be different and better than the competition, and on how to maintain and increase this advantage. In the oil industry, for example, consistent high quality is no longer a differentiator; it's simply the norm

The dynamic markets and technologies have called into question the sustainability of competitive advantage among independent oil companies in Kenya. Under pressure to improve productivity, quality, and speed, most managers have embraced tools such as TQM, benchmarking, and reengineering. Dramatic operational improvements seem to have resulted, but rarely have these gains translated into sustainable competitive advantage. And gradually, the tools have taken the place of competitive strategy. Therefore as managers of these independent oil companies push to improve on all fronts, they move further away from viable competitive positions. Operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the managers must be actively engaged in choosing a unique and valuable position rooted in systems of activities that are geared towards achieving the much desired competitive advantage over their competitors

People are the most important asset to the business. Technologies, products and structures imitation by competitors is one of the problems cited by managers of independent oil companies in Kenya in their struggle to gain a competitive edge over the competitors. Although this is true to a large extent, no one can match highly charged, motivated staff that cares about their company. People are a company's repository of knowledge and they are central to the company's competitive advantage. Well educated, coached, and highly motivated people are therefore critical to the development and execution of a company's strategies, especially in today's faster-paced, more perplexing world, where top management alone can no longer assure a company's competitiveness. Therefore at all levels, the companies must strive to work only with people who can deliver at the frontier of performance. These people must understand where the company is going and be able to influence this path. They must be able to share in the company's fortunes and be motivated enough to push for overall greater achievement for the companies.

The companies should adopt an open enterprise mindset. Here, the implication is that original, creative and fresh ideas do not always come from within the single organization. Sometimes those radical new ideas come from external sources. The companies should be open to new influences from the outside to engage in necessary collaboration across borders e.g. with customers, partners and even traditional competitors. It is only through such effective collaboration that the local oil companies will be able to enjoy an influx of competitive business knowledge essential for planning and implementing competitive strategy.

In order to survive local oil companies must also identify and capitalize on their competitive advantages and core competencies in the Kenyan market. Before striving to get and use what they don't have, it is much wiser for the oil companies to concentrate on the strategies which they enjoy an edge over their multinational counterparts. Such competitive strategies as convenient retailing have the potential of bringing competitive advantage without risking large amounts of a company's resources. This can be done for example through locating the fuel outlets at strategic locations on commercial highways and public transport terminals where consumers are readily available.

5.3 Recommendations

5.3.1 Independent Oil Companies

According to this research it is recommended that independent oil companies consistently adopt competitive strategy to improve performance. They should have specific staff to keep constant touch with the market and recommend strategy to be used. Customers needs and views of a wider range of employees should be considered. This should be supported by the more educated workforce employed in the labour nowadays compared to prior periods. Competitive strategic concepts like focus and cost leadership should be tried by the independents. It is also recommended that independent oil companies set out medium and longer-term competitive strategies more in line with the established majors.

5.3.2 Government Policy

Government has so far facilitated a liberalized market in the Kenya market. The next step in government policy should be to set and implement design and environmental standards more in line with the international markets. This will ensure that independent oil companies move towards professionalism making it more likely for them to use competitive strategies to improve performance. It was also guarantee the end customer service and product quality, and safety to the environment.

Government also needs to strictly follow the industry tendering system for importation of petroleum products through the Ministry of Energy. This will ensure adequate supply to the country and easy access to the commodity by the independents in order to enhance their competitive position in the market.

5.4: Suggestion for further research

This study was mainly concerned with competitive strategies adopted by independent oil companies in Kenya in search of supremacy over their competitors and the extent to which the particular strategies are applied.

Further research should be done in order to ascertain the driving forces behind use and non use of certain strategies by the companies and their implications for the success of these companies' competitive strategy in the Kenyan market.

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APPENDIX 1: RESEARCH QUESTIONNAIRE

SECTION A (For each question tick against one answer in the space):

1) Please indicate your gender

Male ( ) Female ( )

1) What is your age bracket?

Below 30 ( ) 30-40 ( ) Above 40 ( )

2) How long have you been working with the organization?

Less than 5 years ( ) 5-10 years ( ) More than 10 years ( )

3) What is your position in the firm?

....

4) Indicate your highest academic qualification

O' Level or below ( ) A' Level ( ) Diploma ( ) University ( )

Other qualifications please specify

....

....

6) Please indicate your company registered name

....

7) When was the company established?

....

8) Indicate your geographical coverage (main areas of operation)

....

9) What is your company key area of operation? (Please tick)

Branded Retail Stations ( ) Small Retail or Kerosene Outlets ( )

Commercial Supplies ( ) Export Sales ( )

Others [Indicate] ....

10) Size of company (number of employees)

....

SECTION B:

11) Average annual sales volume over the last two years

....

12) To what extent does your company use the following competitive strategies?

Key:

1 – Not at all
2 – To a small extent
3 – To some extent
4 – To a great extent
5 – To a very great extent

	1	2	3	4	5
Pricing	☐	☐	☐	☐	☐
Segmentation	☐	☐	☐	☐	☐
Cost Leadership	☐	☐	☐	☐	☐
Differentiation	☐	☐	☐	☐	☐

Please Specify ....

Focus	☐	☐	☐	☐	☐
Convenience Retailing	☐	☐	☐	☐	☐
Tyre Sales	☐	☐	☐	☐	☐
Car Wash	☐	☐	☐	☐	☐
Vehicle Service	☐	☐	☐	☐	☐

13) Which of the following planning cycles does your company use?

Every 6 months ☐ Annually ☐ Bi-Annually ☐

Every 5 years ☐

Any other, please specify...

14) To what extent do the following in your company participate in planning competitive strategy?

Key:

1 – Not at all
2 – To a small extent
3 – To some extent
4 – To a great extent
5 – To a very great extent

	1	2	3	4	5
Directors	☐	☐	☐	☐	☐
Senior Managers	☐	☐	☐	☐	☐
Middle Level Managers	☐	☐	☐	☐	☐
Employees	☐	☐	☐	☐	☐
Customers	☐	☐	☐	☐	☐

15) To what extent do you use the following evaluation and control mechanism for implementing competitive strategy?

Key:

1 – Not at all
2 – To a small extent
3 – To some extent
4 – To a great extent
5 – To a very great extent

	1	2	3	4	5
Sales Volumes	☐	☐	☐	☐	☐

Profitability ☐ ☐ ☐ ☐ ☐

Customer Satisfaction Index

☐ ☐ ☐ ☐ ☐

13) What major challenges have you experienced in competitive strategic planning?...

....

....

....

APPENDIX 2: Letter of Introduction

Dear Respondent

RE: MBA Research Project

I am an employee of Kenya Shell Limited pursuing a postgraduate degree of Master of Business Administration (MBA) at the University Of Nairobi.

Currently I am working on a research project, which aims at studying the relationship between competitive strategies and performance of Independent Oil Companies operating in Kenya today. Due to the nature of the business in Kenya, I conducted interviews to all available independent oil companies operating in major cities and towns. This will assist me achieve my objective of investigating competitive strategies. In addition, I asked for an indication of their sales volumes trends over the last two years based on data and records available. These volume data was supplemented from available data from KPC trough which many of the independent lift products for sale.

The information collected is intended for academic purposes only and I assure you it will be treated confidentially. Your name will not be mentioned in the report. Upon request a copy of the project will be availed to you before publication.

Your assistance will be highly appreciated and hope that the study will be of benefit to you and me in the organisation.

Yours Faithfully,

Henry K. Mwangi

MBA Student – University of Nairobi

APPENDIX 3: List if Operational Independent Oil Companies in Kenya

Table A3

INDEPENDENT OIL COMPANIES IN KENYA	
1	ADDAX
2	BAKRI
3	DALBIT
4	FOSSIL
5	GALANA
6	GAPCO
7	GLOBAL PETROLEUM
8	GULF STREAM
9	HASHI EMPEX
10	HASS
11	INTOIL
12	JADE
13	KEROPORT
14	MAFUTA
15	METRO
16	MID OIL
17	MOGAS K LT
18	MOIL
19	MUSA PETRO
20	OILCOM
21	PENTOIL
22	PETRO
23	PETROPLUS AFRICA
24	RIVA OIL
25	ROYAL
26	TECAFLEX
27	TRITON

Source: Registrar of Societies