INFLUENCE OF TURN AROUND STRATEGIES ON THE PERFORMANCE OF KENOL KOBIL KENYA LIMITED.

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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DEDICATION

I dedicate this project to my dad who has been an inspiration to me to do my best in everything.

ABSTRACT

Organizations have to align themselves well to cope with the ever changing business environment. Every organization depends on the strategies put in place and its operating environment for its survival and prosperity. Today's business environment is dynamic, complex and highly competitive. Thus, every organization encounters numerous changes during its operations and needs to adapt its strategies in response to these changes. This study sought to identify the influence of turnaround strategies employed by Kenol Kobil on its overall performance. Data collection was done through a case study approach that sought to elicit general and specific information on general changes in business operating environment and how the company has responded to the changes. Data analysis method applied for this case study was content analysis. This enabled focus on issues that bring out the theme of changes in the industry and how organization strategically responds to these changes. Research findings from the study indicate that the biggest threat to the future survival and profitability of Kenol Kobil is government regulation on fuel prices. The second threat is expansion strategy by rival oil marketers. This study has confirmed that Kenol Kobil has put in place strategies to position itself ahead of the competition. Since the biggest threat to KenolKobil is regulation of fuel prices, the company has embarked on a regional expansion strategy to become a Pan-African oil marketer. In view of the findings, the study recommends Kenol Kobil together with other oil marketers to lobby the government to remove fuel price controls to allow free market dynamics and industry self-regulation. Equally, important is to get a strategic partner to inject capital for the regional expansion strategy, and/or issue corporate bond to finance the expansion strategy. Since the study was on one oil marketer, data gathered might differ from data that may be collected from other oil marketers. This is because different organizations even if operating in the same industry adopt different strategies even for a similar change in the business environment. The study also faced a number of challenges. Two main ones were time and financial constraints.

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ABBREVIATIONS AND ACRONYMS

CEO	Chief Executive Officer
BCG	Boston Consulting Group
BBC	British Broadcasting Corporation
NOCK	National Oil Corporation of Kenya
PIEA	Petroleum Institute of East Africa
ERC	Energy Regulatory Commission
LPG	Liquified Petroleum Gas or Liquid Petroleum Gas
NSE	Nairobi Stock Exchange
GCR	Global Credit Rating
KPI	Key Performance Indicator
R&D	Research and Development
LTD	Limited

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Nearly every firm experiences a stage in their life-cycle with declining performance threatening firm survival. While some firms continue to decline and eventually fail others undergo successful turnarounds and return to prosperity. To enable this turnaround the management should come up with smart strategies, implementation Process and have control/monitoring measures in place. Turnaround is defined as a rapid change of corporate strategy that is needed to deal with issues such as falling profitability, lower return on investment or loss of market share. These issues result from sudden changes in demands from the external market place, be it competitors, suppliers or customers (Scholes, 2002). The overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability.

The early turnaround literature (Hofer,1980) state firm's Performance decline as a strategic problem, which should be solved by management directing all resources towards undertaking a strategic reorientation until the firm recovers. However, following the early ideas of (Bibeault (1999), turnaround was argued to be much more than a strategic change and was viewed as a process consisting of two phases; decline and recovery phase.

Financial distress is a situation where firm operating cash flows are not sufficient to satisfy current obligations (such as trade credits or interest expenses) and the firm is

forced to take corrective action. Financial distress may lead a firm to default on a contract, and it may involve financial restructuring between the firm, its creditors, and its equity investors. Usually the firm is forced to take actions that it would not have taken if it had sufficient cash flow. Some events befalling firms under financial distress include: Dividend reductions, Plant closings, Losses, Layoffs, CEO resignations, Plummeting stock prices. In severe cases of financial distress a company may opt or be forced into liquidation through bankruptcy proceedings.

This study carries out a survey of the Kenol Kobil Limited which has been financially distressed since the year 2011. This is after the firm posted a Ksh 6.2 billion loss and a buyout deal with Puma Energy fell through. The company also has a protracted battle with Kenya Petroleum Refinery, all of which has weighed heavily on it. The study tries to establish the strategies the company is putting in place to ensure its back to profitability. This includes but not limited to employee layoff, Asset restructuring, Debt restructuring, diversification, top management change, Slowing down on expansion, especially through acquisitions, complete the sale of non-profitable assets and concentrate more on non-fuel business lines, which yield higher returns.

1.1.1 Performance Dependence

Organizations are open systems that get their inputs from the external environment, process the inputs into products which they offer to the environment as goods and services. Generally, organizations are not immune to environmental turbulence and have no ability to stop the discontinuous changes in the environment. The best they can do is to respond to the changes in order to reduce the adverse effects on the company's

operations and performance. Changes in the macro-environment may occur rapidly or slowly, with or without advance warning and the impact on a company's choice of strategy can range from big to small.

Weihrich and Koontz (1993) have noted that all managers, whether they operate in a business, a government agency, or a church, must in varying degrees, take into account the elements and forces of their external environment. While they may be able to do little or nothing to change these forces, they have to respond to them with smart strategies. Managers scan the external environment and must stay alert for potentially important developments, assess their impact and influence, and adapt the company's strategy as needed.

The external environment that all organizations interact with consists of political, economic, social, technological, environmental and legal environment. Machuki and Aosa (2011) have noted that within Organization Theory (OT), organizations have been conceptualized and researched as open systems engaging in transactions with their environments. Thus, the organization can be viewed as an "open system" that affects and is affected by its environment. It is important for the management of the organization to maintain an accurate and current awareness of important aspects of and trends in the Organization's external environment. A number of major companies have lost dominance or gone out of business because of their failure to recognize and adapt to changes in their environments, or by failing to be leaders in making necessary changes.

Thompson et al., (2008) have noted that all companies operate in a 'macro-environment' shaped by influences emanating from the economy at large, population demographics,

societal values and lifestyles, governmental legislation and regulation, technological factors, and closer home, the industry and competitive arena in which the company operates. A firm's macro-environment includes all relevant factors and influences outside the firm's boundaries. Strategically relevant influences coming from the macro environment can sometimes have a high impact on a company's business situation and have a significant impact on the company's direction and strategy.

1.1.2 Concept of Turnaround Strategy

Strategy like many other concepts in the field of management means different things to different people and organizations. There is no agreed all embracing definition of strategy but rather it is an elusive and somewhat abstract concept. Strategy therefore, should be clearly understood from its operational context.

According to Henry Mintzberg - Strategy aims to steer the direction of the overall business. It affects the long term well-being of an organization. A strategy has long time horizon, usually measured in years rather than months or weeks. A typical strategic plan may set goals to be achieved five or more years in future. For those organizations in competitive environment, a strategy is frequently aimed at gaining an advantage over competitors.

According to Thompson et al. (2008) a company's strategy is management's action plan for running the business and conducting operations. The crafting of a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and pleasing customers, competing successfully, conducting operations, and

improving the company’s financial and market performance. Thus, a company’s strategy is all about how management intends to grow the business, how it will build a loyal clientele and outcompete rivals.

Yabs (2010) has defined strategic management as the art of mobilizing resources and the science of formulating, implementing, and evaluating decisions that enables an organization to realize its objectives. Strategic management is used to refer not only to the general plans of an enterprise, but also to the process of incorporating environmental factors in decision making. Management of the enterprise take into consideration all factors both external to the firm and internal in order to improve the chances of success. The major aim of strategic management can be viewed as to lessen the future uncertainties and to minimize surprises.

Turnaround is a strategy adopted by firms to arrest the decline and revive their growth. A turnaround situation exists when a firm encounters multiple years of declining financial performance subsequent to a period of prosperity (Bibeault, 1982; Hambrick & Schecter, 1983; Schendel et al., 1976; Zammuto & Cameron, 1985). Turnaround situations are caused by combinations of external and internal factors (Finkin, 1985; Heany, 1985; Schendel et al., 1976) and may be the result of years of gradual slowdown or months of precipitous financial decline. The strategic causes of performance downturns include increased competition, raw material shortages, and decreased profit margins, while operating problems include strikes and labour problems, excess plant capacity and depressed price levels.

The Turnaround Process begins with a depiction of external and internal factors as causes of a firm's performance downturn. If these factors continue to detrimentally impact the firm, its financial health is threatened. Unchecked financial decline places the firm in a turnaround situation. A turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions.

1.1.3 Oil Industry in Kenya

Oil plays a significant role in the global economy and is the most traded commodity in the world. According to BBC News, of 18 October, 2007 crude oil is the world's most actively traded commodity. The largest markets are in London, New York and Singapore but crude oil and refined products such as gasoline (petrol) and heating oil are bought and sold all over the world. Petroleum products are used in almost all the industries of the world economies including the Kenyan economy. As such the oil industry in Kenya has attracted international and local players. According to Sambu (2010), the market has over 40 players. However, among the 40 players the market is under the influence of three major firms, which currently control 50.6 percent share of Kenyan market according to data from the Petroleum Institute of East Africa (PIEA). Top oil marketer, Total Kenya is the leader controlling 20.2 percent, Kenol Kobil controls 12.5 percent and Kenya shell, the trading name of VIVO Energy controls 17.9 per cent. Other players include Libya Oil, Gapco Oil Company, Hashi energy, Hass, National Oil Corporation of Kenya (NOCK), Gulf Energy, Engen, Mogas, Bakri International, Engen, Petrol, Banoda, Oryx Energies and Galana Oil Company. In the recent past, significant changes have occurred in the

business environment in which organizations in the oil industry operates at the local and international levels. Global prices of crude oil have been on a downward trend leading to a drop in the prices of refined petroleum products in international markets.

In Kenya, the benefits of lower oil prices continued to be passed on to consumers through reduced pump prices, thanks to the Energy (Petroleum Pricing) Regulations. The purpose of the fuel pricing regulations is to ensure fair prices to consumers by capping the pump prices of petroleum products already in the country. This is one of the major governmental changes that have occurred in the oil industry. The Energy Regulatory Commission (ERC) reviews and regulates fuel prices regularly. Before enactment of this law, oil companies were free to set their own prices based on free market dynamics of supply and demand.

Another change that has occurred is the establishment of a common exchange pool for LPG gas cylinders and standardization of gas cylinder regulators. All players in the oil market are required to exchange cooking gas cylinders with rival companies. This change in the oil industry has stabilized cooking gas prices as any player who retails cooking gas above the market, will lose out on sales. The expansion strategy by rival companies especially Total Kenya Ltd is the other change that has occurred.

Macharia (2012) has noted that Kenya announced its first oil discovery, saying it was found in the northern part of the country where British Tullow Oil Plc has been conducting exploratory drilling. Kenya and East Africa region have become an international hot spot for oil and gas exploration after commercial oil deposits were found in Uganda and natural gas in Tanzania. The discoveries of oil deposits in Kenya and Uganda and LPG in Tanzania are the other significant changes that have occurred. Tullow

Oil PLC has been exploring for oil in Uganda leading to discovery of oil. Increased piracy activity in the Horn of Africa has resulted in a number of oil tankers carrying fuel to Kenya and other destinations being captured and detained by pirates. As a result of this piracy, the insurance premiums for vessels carrying oil and passing through the Indian Ocean corridor have increased significantly and this has adversely affected local fuel prices.

The above are some of the major changes that have occurred in the oil industry and it can be assumed that oil companies, especially the major players are responding to these changes. Kenol Kobil Limited is one of the major players in the oil industry and has therefore been chosen in this study to examine the strategic responses that the company has adopted to cope with the above changes. Oil plays a strategic and key role in the economy of all the countries of the world. Thus, governments all over the world keep a keen eye on the oil industries mostly to avoid disruption and adverse economic consequences. The oil industry is an important sector in the economy and oil prices affect almost all the sectors of the national economy. Normally, an increase in prices of oil products, affect the prices of all other commodities across the economy. This is how important the oil industry is and this makes it a very interesting area of study to understand how oil companies are responding to changes in the macro-environment.

1.1.4 Kenol Kobil Limited

Kenol Kobil Limited is a private Company Listed in the Energy and petroleum segment at the Nairobi Stock Exchange (NSE).Kenol Kobil is a Company on the rise and its strategy of expansion into new markets was adopted in 1999. The Kenol Kobil Group is Africa's fastest growing indigenous Oil marketing conglomerate with an expansive investment portfolio spanning the entire Eastern, Central and Southern parts of the African continent.

The Group consists of subsidiaries in nine (9) African Countries outside Kenya Head Office. In addition to Kenya, Kenol Kobil Ltd is in Uganda, Tanzania, Rwanda, Zambia, Ethiopia, Zimbabwe, Mozambique, Congo DR. and Burundi. The Company has grown tremendously to become one of Africa's leading corporate brands.

In addition to venturing into new markets, the Company has been aggressively strengthening its existing business through acquisition of new assets as well as innovation of new products. The KenolKobil Group strong business model coupled with visionary leadership, provided by the Company's professionally constituted Board of Directors and Management team have seen the Company post impressive results over the years. I.e. According to the company's Bulletin of first half 2011. Kenol Kobil Ltd Vision is to be the leading brand in every market the company operates in, and a major player in Africa.

The Mission of the company is to develop, improve and increase quality and total value of its products and services; become a market leader through continuous innovation, customer focus and to provide the highest quality products and services; maintain highly motivated and well trained human resource base and deliver the highest shareholder value

.The company's business strategy is to continue with geographical expansion and diversification, focus on opportunity in a continuously competitive environment with an adaptive approach, pursue niche business lines; LPG, Lubricants, Non-fuel to supplement declining retail margins, pursue enhancement of product storage to ensure uninterrupted supplies to Network and other customers and constructive collaboration and communication with individual dealers to attain optimum site potential .

Kenolkobil is engaged in the importation of crude oil for refining, trading, storage and distribution of refined and other petroleum products. The Company operates in six segments: Fuel Business, Lubricants, Fuel Card, K-gas, Supply & Trading, Export Sales and Non-Fuel Business. The Company markets and sells crude as well as various variants of white fuels including Premium Motor Spirit, Regular Motor Spirit, Automotive Diesel, Industrial Diesel, Bitumen, Kerosene, and Jet A1 (Aviation) Fuel. It supplies its products to the aviation, agriculture, manufacturing, construction, transportation and mining sectors. Kenol Kobil by far, is the Kenya's leading lubricants marketer.

Liberalization brings with it stiff competition and the firms that survive are those that study requirements of the consumers and strive to meet them effectively, without which the firm may either close down or be taken over by more powerful ones (Auma,2004). Due to liberalization of the Oil Industry sector, environmental changes and mismanagement in the company, this led it to financial distress / decline in the year 2012 and was to be acquired by Puma Energy. The best Kenol Kobil could do was to strategically respond to these changes to reduce their undesirable effects on the

organization. Kenol Kobil Ltd has the one roust task of strategically responding to these changes to survive and remain profitable.

1.2 Research Problem

Changes in the business environment generally affect the long term viability and Profitability of organizations and thus require timely and appropriate strategic responses in order for the firm to survive and prosper. The Kenyan Oil industry and indeed the general business environment have undergone tremendous macro – environmental changes. Consequently, there has been pressure on organizations to respond with strategies formulated to propel them to retain their market share and competitive position. The oil industry in particular, has witnessed significant changes in the business environment. The changes that have occurred include ;Government regulation of fuel prices, creation of a common exchange pool for LPG gas cylinders, expansion strategy by rival companies, discovery of oil in Kenya and Uganda, escalating international crude prices, crisis in oil producing countries, increased piracy in the Horn of Africa, among others.

The environmental turbulence in the oil industry has not spared Kenol Kobil Ltd as an oil marketer because it has no ability to stop the discontinuous changes in the Environment. Kenol Kobil suffered a downgrade of its long-term national credit rating which signaled the firm's weakening financial position arising from disputes that have hindered its capacity to import fuel for resale in Kenya. As per a South African-based firm Global Credit Ratings (GCR) downgraded Kenol Kobil's Ltd long-term debt rating to A from the

2012 rating of A+ with a negative outlook, citing the company's rising debt levels caused by the need for high levels of working capital coupled with capital erosion from losses. Puma Energy has dropped its bid to acquire oil marketer Kenol Kobil Ltd, scuttling the company's growth ambitions. The decision by the Swiss-based Puma Energy to drop the takeover bid hit the company's growth and capitalization ambitions, given that Kenol Kobil Ltd was betting on Puma to bring in more capital and expertise to help grow its business. Investors who had been willing to hold onto the share initially are now losing their will to hang on, following the series of bad reports on the counter.

Kenol Kobil embarked on implementing various strategies, according to its 2012 – 2014 strategic plans, in response to the current situation resulting from the environmental changes. These strategies were geared towards turning the fortunes of the organization around and repositioning itself in the changing environment. However, the impact of these strategies and their effectiveness in bringing the desired turnaround is a subject that needs to be reviewed.

Smith and Graves (2005) conducted a study to produce useful predictors of corporate turnaround using the information contained within companies‟ annual reports. Francis and Desai (2005) also conducted a study, testing the ability of situational variables, manageable pre-decline resources and specific responses to decline, to classify performance outcomes (turnaround versus non-turnaround) in declining firms. According to the authors there are many unanswered questions about what characteristics differentiate successful organizational turnaround from failure. Most of the determinants identified by Francis and Desai (2005) and Smith and Graves (2005)

are similar except that Smith and Graves (2005) included the role of senior management turnover in the turnaround process. Francis and Desai (2005), Smith and Graves (2005), Hofer (1980), Pearce and Robbins (1993) and Scherrer (2003)), all found that the severity of the financial distress significantly affects the outcome of the turnaround.

Oil firms are operating under increasing competitive environment that puts them under pressure to continually reinvent themselves by becoming innovative and developing new strategies to remain relevant in the market. In pursuit to retain its operations Kenol Kobil Ltd has embraced strategic practices which have not been without challenges. Various studies have been done on turnaround strategies but according to the authors there are many unanswered questions about what characteristics differentiate successful organizational turnaround from failure. What kind of turnaround strategies were employed by Kenol Kobil Limited?

1.3 Research Objectives

The objective of this study was to establish the influence of turnaround strategies employed by Kenol Kobil and the Implementation process.

1.4 Value of the Study

This research provides an understanding of the formulation and implementation of turnaround strategies in Kenyan private firms using the case of KenolKobil. It shows the depth of understanding and practice of turnaround strategy in Kenol Kobil Ltd and how

the implementation of the turnaround strategy in the organization dealt with the emerging strategic issues.

This is vital for future reference and contributes to the available body of knowledge. The research also provides valuable insight to the management and staff of Kenol Kobil Ltd on turnaround strategy. It helps in the formulation of the relevant policies and also help to identify solutions to some of the challenges faced in strategy implementation in the organization. It also helps in addressing emerging issues for future turnaround strategy implementation.

The research provides valuable information on the intricacies of turnaround strategy in private /oil firms. Other firms or corporations can use the findings as reference points in their turnaround strategy implementation processes and find out how best to implement the strategies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is devoted to review literature related to the turnaround process, causes of decline, components of turnaround, some turnaround strategies factors determining successful turnaround and the turnaround process model.

2.2 Theoretical Foundation of the study

The characterization and need for organizational changes that are distinctly radical and strategic in nature have been well documented in the literature. Mintzberg (1978), for example, refers to strategic change as a set of activities influenced by environmental changes that affect an organizations culture, technology, structure and product-market focus. Hayes and Upton (1998) allude that sound strategy formulation and implementation will not only help a company to meet the challenges of competition but it can also enable a company to defend or attack competitors successfully and hence survive and prosper in the current dynamic and turbulent environment.

A significant theoretical contribution to our understanding of how organization's change was provided by Tushman and Romanelli's (1985) description of punctuated equilibrium. This theory suggests that relatively long periods of incremental change or evolutionary convergence is occasionally punctuated by revolutionary change, reorientations or frame breaking forces should the levels of stability between strategy, structure and processes are

high. Researchers have also investigated the sources through which firms gain competitive advantage as it relates to areas such as innovation, new product launches, diversification, acquisitions, the influence of top management teams and managerial cognition (Camerer 1991). Although there has been significant progress made in developing frameworks that explain the variables in success at any given point, our understanding of the dynamic courses of action through which firms gain greater market position is not well developed (Porter, 1991).

Though useful these studies did not focus on the likelihood of performance success arising from specific turnaround strategies. This study is important for a more complete picture of the content of corporate turnaround. The increasing importance of non-cooperative behavior among firms competing in an industry has resulted in the emergence of a new development in industrial organization economics that utilizes game theory or a mathematical tool through which to analyze the strategic actions of firms (Seth and Thomas, 1994).

Game theory is the study of rational behavior in situations involving the interdependence of outcomes. (Neumann and Morgenstern 1944; Camerer, 1991). Game theory regards strategy as the art of outdoing an adversary with the assumption that the adversary has the same intent. This is done through rules indicating which action to take at each instant of the game depending on past actions of other players. Firms that survive are those having strategies suited to their industry environments. Shaprio (1989) used game theoretic reasoning to identify certain decisions made by successful firms in concentrated industries. These include investments in physical capital, investments in intangible assets,

strategic control of information, network competition and others. Shapiro (1989), posted that these dimensions of strategic behavior determine the evolution of state dependent variables or performance outcomes.

2.3 Turnaround Strategies

The overall goal of turnaround strategy is to return an underperforming or distressed company to normal, in terms of acceptable levels of profitability, solvency, liquidity and cash flow. Turnaround strategy is described in terms of how the turnaround strategy components of managing, stabilizing, funding and fixing an underperforming or distressed company are applied over the natural stages of a turnaround (CRS Turnaround Management, 2009).

Turnaround refers to recovery to profitability from a loss situation. Following a loss a firm's top management team must respond in an effort to ensure the firm's survival. A faltering firm will most likely continue to decline and may eventually fail if its top management team likes the ability to respond successfully to external and internal factors causing decline. To achieve a successful turnaround, a management team must first stem a firm's decline and select an appropriate strategy for recovery (Situma, 2006).

Baterrman & Zeithaml (1990) present the view that many companies restructure their operations, divesting themselves of their diversified activities, because they wish to focus more on their core business area, this often occurs because the core business area in itself is in trouble and needs top management attention. An integral part of restructuring

therefore is the development of a strategy for turning around the company's core or remaining business areas.

A number of studies have sought to classify alternative turnaround strategies. Hofer (1980), Schendel, Patton & Riggs (1976) have classified turnaround strategies into strategic and operational. The basic idea is that if the decline is because of strategic failure then the turnaround management would need to focus on strategic responses and if the decline is because of failure in operational efficiency, then operational improvements would be needed. Efficiency strategies were cost-cutting strategy involving typically cuts in R&D, marketing, administration and other expenses as well as reduced interest cost through liquidating receivables and inventories; and asset reduction strategy involving divesture of fixed assets like plant and equipment.

Which strategies to use and at what time, determine a turnaround success. Using inappropriate strategy may be a terminal error. Strategies may be combined and used in various sequence. The unique requirements of the business and the turnaround situation determine which strategies to be used (Situma, 2006). Pearce and Robinson (2008) advanced their view that a turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. Turnaround situations may be the result of years of gradual slowdown or months of sharp decline. In either case, the recovery phase of the turnaround process is likely to be more successful.

2.4 Turn Around Process

Turnaround occurs when a firm undergoes a survival threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability (Barker and Duhaime (1997). Corporate turnaround is also defined as the implementation of a set of actions required to save an organization from business failure and return it to operational normality and financial solvency. Turn around has been discussed as a number of possible processes. Either a downturn phase followed by upturn phase. (Schedel et al 1976b) or decline stemming followed by reversal of the decline (Robbins and Pearce 1992). The first task here is always diagnosis of the underlying reasons for poor corporate performance. Crafting turnaround strategies then follows. (Thomson & Strickland, 1989) Managers need to create strategic management systems that integrate all disciplines and all areas of operation of the organization in outcome based structures of the future the manager must critically look at their performance and compare it to others.

Turnaround is considered to have occurred when a firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and regained sustainable profitability (Barker and Duhaime, 1997). The recovery is due to a decline in performance which in most cases is situational. When a firm's Top Management Team responds inappropriately, it may continue in its effort to reverse a firm's decline although such efforts will most likely become more difficult as slack resources become exhausted, organization stakeholders withdraw support and key managers' exit (Arogyaswamy et al, 1995). Thus during decline the management team must make expeditious well- informed decisions to hasten a firm's recovery. Research indicates that when management formulate

and implement informed strategies, their firms can turnaround even when facing declining environment munificence, increasing environmental dynamism, escalating internal problems or limited slack resources (Pearce and Robinson, 2008; Barker and Duhaime, 1997). Pearce & Robinson (2008) present the view that strategic management research provides evidence the firms that have used a turnaround strategy have successfully confronted decline.

2.4.1 Financial Decline

Early and eminent contributors to the field of turnaround argued that downturns came about as a result of unfavorable environmental shifts combined with organizational inefficiency or inappropriate competitive strategies (Schendel and Patton, 1976). This view that the roots of firm decline and possible failure can be traced to industry contraction or firm specific problems received significant support in the broader management literature (Whetten, 1987; Cameron, Sutton, and Whetten, 1988; Hambrick and D'Aveni, 1988; McKinley, 1993).

2.4.2 Signs of Financial Decline

According to Scherrer (2003) long before a business commences its decline, warning signals start flashing, but managers often do not notice the red lights, or they ignore them. Almost every business will experience financial distress or pressure at some point in time – the key to survival lies in the owner's ability to diagnose problem areas and take corrective action quickly. This requires careful monitoring and measurement of key financial metrics which highlight possible areas of financial pain. Despite the importance of tracking profitability as well as cash flow, many business owners fail to measure even a

handful of key performance indicators (KPI) each month and often ignore the classic warning signs, which if left unaddressed, could foreshadow the death of their business. Every business that is in distress shows clear symptoms of impaired profitability and cash flow. Below are ways but not limited to through which firm's management can recognize its firm is about to have financial problems. (www.investopedia.com)

Business and Management Warning Signs which can be identified through Information found on financial statements. Changes in the market environment often trigger – if not cause – deterioration in a company's financial health i.e. downturn in the economy, the appearance of a strong competitor, an unexpected shift in buyer's habits, among other things, can put serious pressure on a company's revenues and profitability.

Lack of up-to-date financial information and failure to calculate or forecast cash flow and Continued erosion of gross profit margins, Over-reliance on borrowed funds A firm, which is exposed to higher business risk, faces a greater chance of financial distress (Pandey 1999).

2.4.3 Causes of Financial Decline

Organizational decline represent substantial resource losses over time (Cameron et al, 1987) and can be either a gradual process or a sudden, unexpected disruption (Tushman & Anderson, 1986). Substantial organizational decline leads to crisis where the survival of the firm is threatened. Managers tend to attribute performance decline and any resulting organizational crises to the external factors beyond their control, such as competition. Empirical studies, however, show that very few business failures are the 20 result of

outside factors only (Boyle & Desai, 1991). Instead organizational failure is frequently linked to internal problems like failure to update products, invest in core competencies and control cost (Baum, 1989; Hedberg, Nystrom, & Starbuck, 1976; Starbuck, Greve, & Hedberg, 1978). Apart from internal factors, external factors like political, economic, social, technological, ecological and legal also play a decisive role in the decline of an organization. It includes the role of unions, governmental regulations, safety and health improvement measures, consumer organization pressures, shortage of energy and raw materials etc. Research shows that external causes play a minimal role compared to the internal causes in shifting the fortunes of the organization.

2.4.4 Internal Causes of Financial Decline

The major cause of business failure lies within finance, operations and marketing-the internal elements of a business. The management has direct control over these functions and are the force that drives them, yet 80 percent of business failures are caused by management's inability to control the internal elements (Scherrer 2003). Internal causes of financial distress include Unanticipated changes in the factors providing competitive advantage e.g. the Introduction of new products or services by competitors as noted by Barney (1991).The loss of firm specific skills (human capital) which were the foundation of the firm's competitive advantage, as noted by Castanias and Helfat (2001). The adoption of misplaced strategies, or failure to update its traditional capabilities, experience, knowledge or resources, as noted by Grinyer and Spender (1979). Insufficient Accounting Practices and poor debt management can also lead to financial distress.

2.4.5 External Causes of Financial Decline.

The external environment may also affect the operations of a company adversely. Yabs (2010) has noted that macro-level environmental forces are all those forces that are external to the firm. A change in an external uncontrollable element will be felt by all businesses in an industry, but the impact these changes have on specific business depends on the strength and stability on the management team (Scherer, 2003). Some of the major issues, which are generated by the external environment, are Government policies regarding taxation, power tariff, power supply, customs duties and import duties, restrictions on imports and exports among others. Quota system imposed by the government on raw materials/ finished goods. Large numbers of firm's entry thereby sudden increase in the capacity. Development of new technology as well as sudden withdrawal by some of the major customers resulting into decline in orders. Change in consumers' tastes and preferences. Strained relationship with the external government. A change in the lending policies of the financial institutions

2.5 Steps in turnaround process

In turnaround strategies the focus to most stakeholders is on the speed of change, rapid cost reduction and/or revenue generation. The length of time necessary to complete successful business turnaround varies. Scherrer (2003) suggest a couple of years. Much research has been done to find out the sequence that precedes the turnaround in a company. According to Simister, P. (2009) The principal aim of any corporate turnaround is to remove the company quickly from any immediate danger of going into liquidation, and to focus on activities and tasks that restore corporate value. In order to achieve this,

Simister, P. (2009) identified six broad stages that a company in a turnaround situation will need to go through:

Management change – involves the board of directors or senior management recognizing that change is necessary and then initiating a corporate turnaround programme.

Business review– the company must quickly identify the underlying problems causing the current situation and understand the business' chances of survival.

Business restructuring plan– the next stage is to identify appropriate strategies and develop an achievable recovery plan with detailed functional actions. Typically, this will include action to: restructure outstanding debt obligations, reduce operating costs, improve management of working capital, enhance product pricing and customer mix, streamline product lines and accelerate growth of high potential products.

The plan must then be communicated to all key stakeholders in the business, including the board of directors, the management team and employees, to ensure buy-in. communicating the plan with external parties, such as the bank, key suppliers and creditors will be critical to gaining credibility and restoring confidence in the business.

Implementation – at the emergency stage, companies must do whatever is necessary to survive. This may include: making redundancies, eliminating departments and drastically reducing all non-essential costs. Positive cash flow is critical and must be established as quickly as possible. Cash will often be required to implement the turnaround strategy and this must also be sourced without delay. Often, unprofitable business units or operations are sold as a means to raise cash. Operations that cannot be sold within a reasonable timeframe may be liquidated. Stabilization – once the business has stopped hemorrhaging,

overheads have been cut and loss making operations have either been divested or liquidated; the main focus is on improving the efficiency and effectiveness of the remaining business operations. To ensure long-term survival, the company must increase profitability and its return on investment while ensuring the smooth operation of existing facilities. This is often the hardest stage for an organization to achieve successfully. Improving return on investment is typically more challenging than removing loss-making operations or cutting costs.

Embedding the change– the final stage concentrates on embedding the turnaround, with the company gradually returning to financial health. Management behavior and reward and compensation systems need to focus employees on profitability, return on investment and value creation.

2.5.1 Organization and Performance

Organizations are constructs designed to achieve singular objectives, such as the effective provision of services, completion of a project, manufacture of batches of products or longer term objectives such as profitability, market share growth, technological competitiveness, economic growth/development or other performance measure for ongoing activities. Organizational effectiveness and performance therefore have to be measured differently, depending on the environment and purpose of the organization. Organizations are instruments designed to achieve an entity's objectives while responding to all threats and opportunities using assigned, available or obtainable resources.

The environment under which the organizations operate is infinite and includes everything outside the organization. Organizational environment that can be considered important consist of elements that exist outside the boundary of the organization and have the potential to affect all or part of the organization. Machuki and Aosa (2011) have noted that the environment in which an organization operates is composed of an infinite set of elements outside the boundaries of the organizations, associations of individuals, and broad forces represent important segments of the organization's environment.

There are three types of environments of the firm: External remote environment, External Industry or Immediate or Operational Environment and Internal Environment. Remote environment refers to factors that are far from the firm but influence its operations. They include politics, economics of a country, social factors, technological factors and ecological factors. These factors have been termed PESTEL. Industry or operational or immediate environmental forces refers to the factors slightly closer to the firm such as customers, suppliers, employees, and other firms having dealings with the company

2.5.2 Turnaround Strategy and Performance

Strategic management is a process and includes environmental scanning (both external and internal), strategy formulation (strategic planning), strategic implementation, and evaluation and control. Strategic management emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths and weaknesses in order to generate and implement a new strategic direction for an organization.

Hunger and Wheelen (2007) have defined strategic management as that set of managerial decisions and actions that determines the long-run performance of a corporation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research design and methodology used in the study. The chapter has been organized into research design, data collection procedures and data analysis techniques.

3.2 Research Design

The study was conducted through a case study. A case study is an in-depth investigation of a single individual, group or event to explore causation in order to find underlying principles. This is a case study whose purpose is to seek to collect in depth information on the turnaround strategies that were adopted by Kenol Kobil Ltd in improving its performance. A case study design provides very focused and valuable insight to phenomena that may be vaguely known or understood. Robson (2002: 178) defined case study as ‘a strategy for doing research which involves an empirical investigation of a particular phenomenon within its real life context using multiple source of evidence.’ The strategy will be of particular interest to you if you wish to gain rich understanding of the context of the research and the processes being enacted (Morris & Wood, 1991)

The researcher examined the data for the period from 2011 to 2012. This time period captures the downward trend in Kenol Kobil’s financial performance. The researcher studied the strategies followed by Kenol Kobil in the turnaround framework. The study also examined whether there was adequate evidence to support that a

particular strategy was followed by Kenol Kobil Ltd and whether it yielded desired effect to facilitate the turnaround.

3.3 Data Collection

An interview guide was used to collect data from the respondents. The researcher utilized both primary and secondary data. Primary data will be collected by way of a personal interview guided by a prepared interview guide consisting of open ended questions. The respondents were drawn from the both Top management and operational level. Secondary data was sourced from brochures and financial reports to supplement the primary data.

3.4 Data Analysis

Data was analyzed using content analysis because the study was seeking to solicit data that is qualitative in nature given that this was a case study. Content analysis is a process of inspecting, cleaning, transforming and modelling data with the goal of highlighting useful information, suggesting conclusions and supporting decision. Analysis of data collected was done by comparing it with the theoretical approach and documents cited in the literature review.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter deals with analysis of the data and interpretation of the research findings. The data in this study was content analyzed in order to find out the influence of strategies in the overall performance of Kenol Kobil Limited within its business environment.

4.2 Changes Affecting Kenol Kobil Performance.

Changes in the business environment generally affect the long term viability and profitability of the organization and thus require timely and appropriate strategic responses in order for the firm to survive and prosper. All the respondents interviewed acknowledged that significant changes have occurred in the business environment in which Kenol Kobil operates.

One of the significant changes acknowledged by all the respondents was the regulation of fuel prices by the government effective December 2010. The government controls the maximum prices that oil companies sell the fuel to the motorists. Adherence to the prices is mandatory and failure to do so attracts heavy fines and/or cancellation of the operating license.

Another change cited by the respondents is volatile and high international crude oil prices that the industry is facing. The respondents observed that the current prices in the market

are the highest the industry has witnessed and the projection of higher prices in future. Respondents were apprehensive that high prices will suppress demand and adversely affect the performance of Kenol Kobil.

The expansion of rival companies especially Total Kenya is another change that was acknowledged by the respondents. Total Kenya is now number one oil marketer in Kenya in terms of market share overtaking Kenol Kobil Ltd.

According to the respondents another significant change that has occurred in the industry is the establishment by the government of a cooking gas exchange pool where oil marketers exchange gas cylinders with rival companies. Through the exchange pool, the oil marketers have standard cooking gas cylinder fitted with standard gas regulators and to accept gas cylinders from rival companies at the retail level.

The respondents cited the increased piracy in the horn of Africa as another change that has affected the oil industry. The respondents lamented the high increase in the insurance premiums and delays in ship docking at Mombasa Port due to increased piracy activities. The delay in delivery of oil has resulted in fuel shortages in the market and this has affected revenues and profits of oil marketers.

Another significant change that was cited by the respondents is the purchase of fifty one percent of Kenya Petroleum Refineries Ltd by Essar of India and elevation of the refinery facility to a merchant status. Oil marketers are apprehensive that the inefficiencies at Kenya Petroleum Refineries Ltd will delay supply and delivery of oil into the market. The

respondents lamented that unless the refinery is managed professionally, inefficiencies at the refinery will make oil products even more expensive.

Lower sales in the Africa trading desk and aviation were recorded as having led to lower sales volume and turnover. However The most significant impact come from realized exchange losses on forward contracts taken in the later part of 2011 and first quarter of 2012.

The respondents cited another change as the upheavals in the oil producing countries that have affected the supply of oil in the industry. The upheavals have adversely affected the oil outputs in the market distorting the supply level thus increasing fuel prices and this has eroded the margins of oil marketers. Other changes acknowledged by most respondents are oil discovery in Uganda and cooking gas in Tanzania. These discoveries have implications on the operations of Kenol Kobil in these two countries where the company has set up operations

4.3 Turnaround Strategies Adopted

According to Ansoff and MacDonnell (1990) strategic management is concerned with creating a strategic position which assures future environment viability of the organization. The strategic analyst of every firm is concerned with the continued long term profitability potential. Companies in most all industries have to craft strategies that are responsive to environmental regulations, technology, actions of rival companies, political and social economic factors. Failure to respond to changes in the environment may threaten the survival of the firm.

4.3.1 Strategic Alliances and Partnership

A strategic alliance is a formal agreement between two or more separate companies in which there is a formal agreement between two or more separate companies in which there is strategically relevant collaboration, joint contribution of resources, shared risk, shared control and mutual dependence Thompson et al., (2008). In one of the monthly management meetings the Chief Executive Officer of KenolKobil informed the management that the Board of the Directors had directed the management to look for a strategic partner to take the company to the next level. Following the board resolution, the management of KenolKobil started negotiations with a strategic partner Puma Energy of Switzerland. Puma Energy is an international oil company that is seeking to enter the local oil market for the first time by acquiring a controlling interest of KenolKobil Group.

The partnership will complement the companies own strategic initiatives and strengthen KenolKobil competitiveness in domestic and regional market.Puma Energy operates in other key oil markets in Africa and has the financial capacity and technical know-how to operate across borders and is expected to strengthen the expansion strategy of KenolKobil to be a Pan-African oil marketer. It is expected that the expansion strategy that Kenolkobil has been pursuing will be greatly enhanced by the partnership with Puma Energy both locally and regionally.

In another strategic alliance, KenolKobil jointly operates the Nairobi Joint Depot (NJD) with Total Kenya Ltd. In this arrangement the two oil marketers share overhead costs to reduce their operational costs and also loan each other fuel in case one has a shortfall. This

strategic partnership is unique as other players operate individually. Strategic partnership may experience significant drawbacks due to the potential for conflicting objectives, disagreement over how to best operate the joint depot, and so on.

4.3.2 Regional Expansion

One of the strategic responses that KenolKobil has adapted is regional expansion spanning the entire Eastern, Central and Southern parts of the African continent. This expansion is in top gear especially with the introduction of fuel price regulation in Kenya in 2010 and aggressive marketing by rival companies to gain market share in the local market.

KenolKobil regional expansion is especially targeting countries where the market thrives on the market economies of demand and supply.The regional expansion strategy is guided by management opinion that when the economy in one country is not doing well the other economies are most unlikely to be experiencing the same economical phenomenon. This will therefore cushion KenolKobil operations against adverse economic impact on its overall profitability. The regulatory frameworks of individual countries where Kenolkobil operates are different and this may poses both opportunities and threats

Furthermore the expansion strategy decision was also informed by the fact that a number of corporate and individual customers that use the K-card fuel card of Kenol Kobil have operations across the regional block.

In order to serve these customers in most if not all locations KenolKobil management decided to follow their customers across the boundaries. Local managers were seconded to the neighboring countries to oversee the operations of KenolKobil Ltd.

4.3.3 Outsourcing

A study by Ngaluma (2008) researched on the strategic responses of the Kenya Electricity Generating Company to changes in the external environment. The study found out that the company had outsourced its non-core activities. Outsourcing involves a conscious decision to abandon or forgo attempts to perform certain value chain activities internally and instead to farm them out to outside specialists and strategic allies

Thompson et al., (2008). The two big drivers for outsourcing are that outsiders can often perform certain activities better or cheaper and it allows a firm to focus its entire energies on those activities at the center of its expertise and that are the most critical to its competitive and financial success.

KenolKobil has employed the strategy of outsourcing non-core business activities of transporting fuel to their fuel service stations to transporting and logistic companies. Outsiders can in most cases perform certain activities better and/or cheaper and this allows KenolKobil to focus its entire energies on its core activities of oil marketing that is critical to its success. This strategic response was informed by the fact that maintaining a fleet of tankers to transport fuel, ensuring safety of the fuel in transit, maintenance of the trucks and other logistics and administrative would divert KenolKobil from its core business and is also expensive.

The outsourcing strategy is also used in the maintenance of KenolKobil machineries and equipments at all the fuel stations. KenolKobil has contracted firms that specialize in the maintenance and servicing of fuel pumps and these firms offer twenty four hours services to all service stations. The contracted firms ensure minimum down time in dispensing of fuel in the entire fuel stations network. Other outsourced services include security, cleaning services and cash in transit to the bank by G4S.

4.3.4 Aggressive Marketing

According to Thompson et al., (2008) aggressive moves to capture a bigger market share invite cutthroat competition, especially when many industry members, plagued with high inventories and excess production capacity, are also scrambling for additional sales. Firms employ aggressive marketing to wrest market share away from rivals that often provoke retaliation in the form of escalating marketing and sales promotion or a price war to the detriment of everyone’s profits. Offensive strategic responses are employed by firms to improve their market position and to try to build a competitive advantage or widen an existing one.

KenolKobil has come up with a fuel card marketing tool that is based on a software similar to the Mpesa money transfer. The K-Card enables the motorist to load money into the card at any KenolKobil service station and to use the card to fuel at any KenolKobil service station. In addition the card offers the motorist a discount on all purchases through a promotion campaign dumped “Deal Poa.” The K-card has captured and locked-in a

clientele base that fuel at KenolKobil service stations at a discount thus protecting the market share from rival firms.

The company has been aggressively marketing its products to corporate customers that use huge volumes of fuel and lubricants. These organizations include Kenya Tea Development Authority, Kenya Power and Lighting, Kenya Airways, Kenblest, Nairobi Water and Sewerage Company, among others. These are high value customers and a niche market outside the service stations network and because of their high volumes the company offers them a discount graduated on volumes purchased each month.

The service station dealers also enjoy incentives known as sliding scale whereby on reaching certain volumes per month, the dealer gets monetary reward for every litre of fuel sold over and above the target volumes. The target volumes are guided by the location of the stations and the proximity of the competition. Dealers are encouraged to offer exemplary services to the customers to ensure loyalty and repeat orders so as to reach the set targets.

4.3.5 Low Cost Strategy

Thompson et al., (2008) have noted that striving to be the industry's overall low-cost provider is a powerful competitive approach in markets with many price-sensitive buyers.

A company achieves low-cost leadership when it becomes the industry's lowest-cost provider rather than just being one of perhaps several competitors with comparatively low costs. For maximum effectiveness, companies employing a low-cost provider strategy

need to achieve their cost advantage in ways difficult for rivals to copy or match. KenolKobil is a major player in the monthly fuel open tender system (OTS) where oil marketers tender to import and supply all other marketers with fuel for a whole month. Oil marketers tender every month to the Ministry of energy and the lowest bidder is awarded the tender. KenolKobil has been aggressive in the OTS by quoting low prices and winning tenders.

4.3.6 Vertical and Horizontal Integration

Thompson et al., (2008) have noted that vertical integration extends a firm's competitive and operating scope within the same industry. It involves expanding the firm's range of activities backward into sources of supply and/or forward toward end users. The strategic impetus for forward integration is to gain better access to end users and better market visibility.

The best potential for being able to reduce costs via a backward integration strategy exists in situations where suppliers have outsized profit margins, where the item being supplied is a major cost component, and where the requisite technological skills are easily mastered or can be gained by acquiring a supplier with the desired technological knowhow. KenolKobil has extended its operations and competitiveness by expanding the company's range of activities backward into suppliers of inputs. KenolKobil directly imports oil and also use tankers to transport oil from the port instead of using the Kenya Pipeline Company facilities that are sometimes unreliable. The company has also invested

heavily in fuel service stations by outright ownership instead of entering into long-term leasing agreement with landlords of service station facilities.

In addition to entering into dealership agreements, KenolKobil has company run fuel service stations. In this arrangement the oil marketer sells fuel direct to motorists and employees of KenolKobil Ltd operates the fuel service station on o day-to-day basis. These service stations are known as company run. This strategy is employed for newly acquired fuel service station as the Company searches for a dealer to run the station. The company's new business manager is on the lookout for new strategic sites where the Company can build new service station or hire from independent operators.

4.3.7 Restructuring (Layoffs) and Top management Change

To enhance operational efficiency further, Kenol Kobil Ltd embarked on major layoffs thus reducing the salary expense. Top level management change is widely accepted as a precondition for successful .Turnaround Sudarsanam and Lai (2001). The research findings indicate that one of the elements of turnaround at Kenol Kobil was change in top level management. There was change in the Group CEO and two other directors in the board in year 2013. Change in top level management is seen as a means of restoring stakeholders' confidence in the future viability of the organization, thereby ensuring their support. New senior managers are able to offer fresh insights into the causes of decline and skills and motivation necessary to bring about organizational change Smith and Grave (2005).

4.3.8 Stakeholders Management

Stakeholder management is key to a successful turnaround. The cooperation of each of them- customers, vendors, employees, board of directors and others is essential. The stakeholders have vested interest in the survival of the business. If not involved in the process, they could frustrate any efforts to have a successful turnaround. Employee participation is essential to turning a business around. When employees are included in the restructuring plan, they tend to accept painful concessions as necessary to the company's survival. When restructuring is complete, the business is certainly indebted to these people and should compensate them for their contributions (Scherrer, 2003). The research findings at Kenol Kobil are in consonance with these observations.

4.4 Discussion

Organizations are open systems that get their inputs from the external environment, process the inputs into products that are offered back to the environment as goods and services. Butler et al., (2010) have noted that nowadays corporations are challenged by dynamic environments with a rapid speed of changes, burgeoning complexity and increased uncertainty. Firms must be able to cope with unplanned situations which cannot be predicted in advance. Kenol Kobil Ltd has in the recent past faced a dynamic environment due to significant changes have occurred in the oil industry that include regulation of oil prices by Energy Regulatory Commission (ERC), standardization of cooking gas regulators, escalating international crude oil prices, upheavals in oil producing countries among other changes.

The turbulence in the oil industry has not spared Kenol Kobil as a leading oil marketer because it has no ability to stop the discontinuous changes in the environment. The best Kenol Kobil can do is to strategically respond to these changes to reduce their undesirable effects on the organization. From the literature, long before a business commences its decline, warning signals start flashing, but managers often do not notice the red lights, or they ignore them. When they finally do acknowledge something is amiss, some managers will treat the problem as temporary phenomenon putting out the fire but not remedying the hazard. From the research findings, the business decline signals for Kenol Kobil were felt long before the actual decline. This is manifest in the early 2011 when kenol Kobil asked for capital injections from its mother company after it could not sustain its expansion moves, it then went ahead and posted a loss of 6.2 million. The company resulted to taking loan which in turn affected shrinking profit margin.

A strong management team should be aware of any potential difficulties or signs of trouble and should deal with them accordingly. Neglecting these warning signals can cause irreparable damage to the business and rob it of its profit potential (Scherrer, 2003). The research findings indicate that the one of main element of turnaround at Kenol Kobil was change of top management. Top management change is widely quoted as a precondition for successful turnarounds (Sudarsanam and Lai (2001). Simply when old ways of operating need to undergo drastic change. It is difficult for the incumbent top management to change their habits and institute radical reforms. Often the stakeholders will continue to give their support if they are confident that the management team can manage the crisis at hand. A change in top management is tangible evidence that something positive is being done to improve the firm's performance even though the cause

of the poor performance may have been beyond management's control (Sudarsanam and Lai, 2001).

The strategy used and the timing of the strategy determine the success of the turnaround. Strategies can be combined and used in various sequences (e.g. an initial strategy may require cost-cutting, and then be superseded by the revenue generating strategy but using the inappropriate strategy can be a terminal error. The unique requirements of your business and the turnaround situation will determine the strategies to be used. The adoption of a turnaround strategy itself is no guarantee of recovery. For a strategy to be effective, it may have to be carried out swiftly, intensively and competently.

Poor Implementation of turnaround strategies may exacerbate decline Cameron, Sutton and Whetten (1988). Hoofman (1989) suggests that the difference between successful and failed turnarounds lies more in the strategy implementation process than the content.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, discussions and conclusions from the research findings as per the objective of the study. Based on the findings, recommendations have been given regarding the changes facing Kenol Kobil Ltd and the strategies being put in place. The limitations of the study as well as suggestions for further research are also discussed.

5.2 Summary of Findings

The study sought to identify the influence of strategic turnaround strategies adopted by Kenol Kobil in the dynamic oil industry to improve its performance. Key changes and responses from the findings and discussions in chapter four are summarized here below. The capping of fuel prices and standardization of cooking gas cylinders by the government are the most significant changes that have occurred in the market. These have adversely affected the performance of KenolKobil Ltd. The regulations contradict the economic rule of free market forces of demand and supply and where prices are determined by these forces.

The second significant change is the expansion strategy by rival companies that have reduced the market share of KenolKobil. KenolKobil has strategically responded to these changes by expanding its operations regionally to become a Pan-African oil marketer. The company is able to operate in free market economies and maximize profits in other

regions. The other significant response is the negotiations to bring on board a strategic international partner, Puma Energy. This alliance will put the company in the same financial position and international best practices among other multinationals such as British Shell and Total of French. Thirdly, the launching of the fuel card, K-Card is another significant response that has transformed how motorists fuel their vehicles in a most convenient way that is cash-less.

5.3 Conclusion

The study established that Kenol Kobil Ltd interacts with the external environment in form of an open system by drawing inputs from the environment, processing the inputs into outputs that it offers to the environment in form of products. Thus, changes in the external environment especially in the oil industry have a direct impact on the operations/ performance of the firm. Indeed the capping of fuel prices has an adverse effect on the profitability of Kenol Kobil and in 2012 the company reported the highest loss in its history. The company has been monitoring the changes occurring in the environment and responding appropriately by reviewing and re-aligning its strategies In response to the changes in the oil industry, the study concludes that KenolKobil should reflect more on raising money to finance the regional expansion strategy by getting a strategic partner and/or raising additional capital through the Nairobi Stock Exchange by issuing corporate bonds or rights.

In addition the company should take up price differentiation strategies such as offering discounts on fuel prices to royal customers who are the holders of K-Card. On product differentiation strategies, Kenol Kobil should launch cooking gas with meters that will show the consumers the level of gas remaining in the cylinders. Kenol Kobil can brand other

products like battery water and battery acid. The study concludes that the strategies that have been adapted by Kenol Kobil to changes in the business environment have generally been highly effective.

5.4 Recommendations

This study will provide crucial information to the staff of Kenol Kobil Ltd on turn around strategies being taken by management as a result of significant changes to help improve the company performance in the dynamic business operating environment. Managers will be able to use this study as a management reference point for strategies being put in place, both present and future that will ensure their company's survival and success over the other companies. It is recommended that the management of Kenol Kobil Ltd continues to search for a strategic partner after the collapses of negotiations with Puma Energy to enable them achieve the desired regional expansion.

KenolKobil Ltd can also explore the option of issuing rights issue to the existing ordinary shareholders to finance the regional expansion. It is also recommended that the company explore the option of issuing a long term corporate bond to finance the expansion.
In order to have a lean and efficient organization structure KenolKobil management can decide to restructure the organization. Restructuring has been employed successfully by other oil marketers like Kenya Shell Ltd to reduce the wage bill and remain profitable. Restructuring strategy has been used successfully by other quoted companies at the Nairobi Stock Exchange for example Kenya Commercial Bank.

Management practitioners and consultants will benefit from this study. They will be in a position to evaluate the strategies that have worked for Kenol Kobil Ltd and those that have

failed to make informed decisions and recommendations to their clients. Students of strategic management and academia will benefit from this study as they will learn how to apply strategy in a financially distresses firms. They will also gain insights into strategic responses adopted by firms to various changes in the business environment and can also use this study as a foundation of further research.

5.5 Limitations of the Study

Since this was a study on one oil marketer, Kenol Kobil Limited, data gathered might differ from strategic responses adopted by other oil marketers. This is because different organizations even if operating in the same industry adopt different strategies that differentiate them from their counterparts. The study however, constructed an effective research instrument that sought to elicit general and specific information on the influence of strategic responses adopted. The study faced both time and financial constraints. The duration that the study was conducted was limited hence exhaustive and extremely comprehensive research could not be carried out on strategic responses. Due to limited finances the study could not be carried out on all the operational centers of KenolKobil Ltd. The study, however, minimized the adverse effects of these limitations by conducting the interviews at the organizations headquarter since this is where strategies are made and rolled out to other operational areas.

5.6 Suggestions for further Research

The environment under which all types of organizations operate is dynamic and ever changing. The scope of the study can be extended to cover other companies facing macro-environment changes in their operating environment including other oil marketers in Kenya.

Managements of different firms are different and therefore the way one management will respond to different changes will be different.

A further study can be carried out to investigate the challenges facing KenolKobil in implementing its regional expansion strategy. Since 1999, Kenol Kobil has been expanding in the regional market and therefore it would be interesting to carry out a study that will investigate the strategy implementation process.

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APPENDICES

Appendix 1:

INTRODUCTION LETTER

SEPTEMBER, 2015

The Respondent

Kenol Kobil Limited

Dear Respondent

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

I am a student at the University of Nairobi in the School of Business pursuing a degree of Masters of Business Administration. I am conducting a research study on "Turnaround strategies adopted by Kenol Kobil limited".

To undertake the research study you have been selected to participate in this study as a respondent. The study will focus on face to face interview where the researcher will pose guided questions in a session lasting about 20 minutes. The information provided will be treated in strict confidence and used for academic purpose only. A copy of the final report will be available to you upon request.

Your assistance and cooperation will be highly valued.

Yours faithfully,

ALFRED K MUNYAE	**Dr John Yabs**
REG. NO. D61/67350/2013	**University Supervisor**

Appendix II

INTERVIEW GUIDE

Section A.

Name (optional) ……………………………………………………………

Position held ………………………………………………………………….

How long have you worked in this position?………………………………….

How long have you worked in Kenol Kobil Limited?………………………….

Section B.

1. What were the principal causes of business decline in year 2011/2012?

2. Describe the significant changes that have taken place within the last 5 years in the business environment which have affected Kenol Kobil Ltd, (e.g. changes in technology, government regulations, increased competition, etc)

3. What is the impact of these changes to Kenol Kobil Ltd and how has Kenol Kobil Ltd been affected?

4. Has Kenol Kobil Ltd responded to these changes? Yes/No

5. What are the main causes of the decline?

6. What were the signals that the business was on a decline?

7. What were the main characteristics of the decline?

8. Did Kenol Kobil Ltd Have turnaround Strategies? Yes / No

9. Who is involved in the development of turnaround strategies in your organization?

10. What has been your role in the corporate turnaround?

11. What would you consider as key components during turnaround strategy development process?

12. What was the motivation for the turnaround strategy?

13. How is strategy communicated in your organization?

14. Briefly explain the challenges faced during implementation of strategy as experienced in your organization?

15. Briefly explain the impact of these challenges to your strategy implementation process?

16. What financial implications has the turnaround had on the company?

17. What was the response of the stakeholders to the turnaround?

18. What mechanisms were put in place to ensure continued support of the stakeholders?

19. How would you rate your turnaround strategy implementation process success?

20. Are there more key strategic issues that your organization has to deal with?