THE ROLE OF STRATEGIC MANAGEMENT IN ORGANIZATIONS' RESOURCE ALLOCATION: A CASE OF KENYA PIPELINE COMPANY LIMITED.

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SEPTEMBER 2011

DECLARATION

I declare that this project is my original work and it has not been presented for a degree in any other University or for any other award.

I acknowledge all sources of information referred to herein

Signature: ……………………………….. Date: …………………

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D61/70246/2009

DECLARATION BY SUPERVISOR

This is to declare that this project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my dear parents, the Late Wilson K. Kiplagat and Mrs. Susan Kangogo for instilling patience in me, to my family member, Josphat, Sally, Sharon, Ian, Kevin and Patience for their inspiration, love and understanding. You gave me the challenge I needed to accomplish this assignment.

ABSTRACT

The study was to establish the role of strategic management in resource allocation in KPC, establish any challenges faced by the Company in its resource allocation process and recommend mitigating factors on the challenges. The researcher used both primary and secondary data. The primary data was derived from the interviews administered to the sample respondents who were ten chief officers of the company. The secondary date was obtained from the Company's documents that included strategic corporate plan, past resource allocation schedules, management decision on past resource allocation process and government circulars on resource allocation guidelines.

By quantitative analysis, the researcher concluded that strategic management plays a big
In addition, the study identified challenges that are faced by the Company in the resource allocation process and mitigating factors. Some of the challenges identified include failure to accurately determine the revenues and expenditure to be incorporated in the resources allocation proposal. The study further established that business environment is dynamic and economic variables change with the changes in the environment for example drought. Hard business operating environments result to inflation which causes increase in prices of goods and services. It is important to note that such environments may not be predicted with certainty. The scarcity of resources is another challenge that featured prominently in the study. On many occasions, resource allocation proposals are reduced or items removed due to unavailability of resources. Resource allocation process was observed to be time consuming. Stream lining of the system through automation of the process was recommended to address this challenge.

TABLE OF CONTENTS

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy comes from the Greek word "Strategio" which means generalship, an observation made by Mintzberg (1991, page 4). Strategy is associated mainly with the military and warfare. According to Mintzberg (1991) strategic principles for instance military and diplomatic strategies have existed since prehistoric times. Strategy involves the setting of objectives, formulating policies that guide the organizations towards achievement of the set objectives and drawing programmes that when accomplished will achieve the organization's overall goals. Ansoff (1965) introduced the term strategic management into the business vocabulary. "The essence of strategy – whether military, diplomatic, business, sports or political .... is to build a posture that is so strong (and potentially flexible) in selective ways that the organisation can achieve its goals despite the unforeseeable ways external forces may actually interact when time comes"(Mintzberg 1991, page 10). Hax and Majluf (1991) defined strategic management as a coherent unifying and integrated pattern of decisions that determine and reveal the organizational purpose in terms of long term objectives, actions, programs and resources allocation priorities.

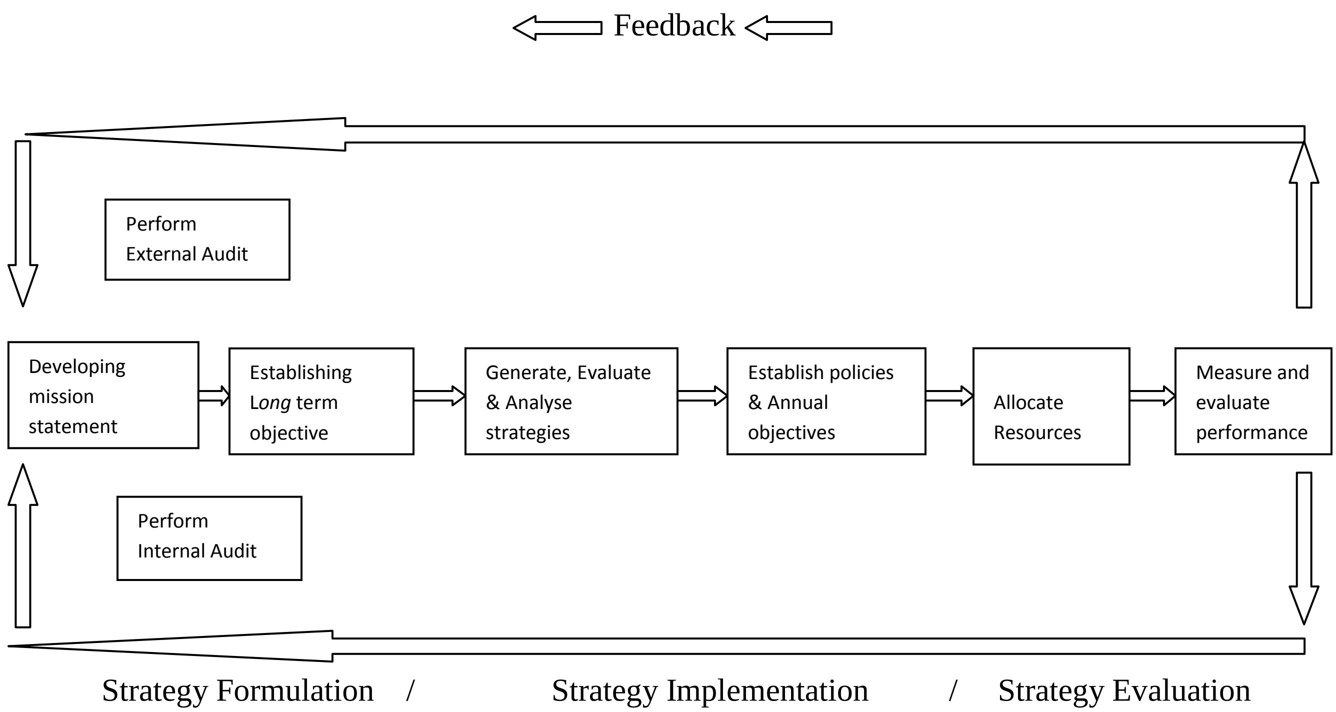
Ohmae (1988) observed that strategy is not beating the competition, it is serving customers' real needs. Customers' needs change from time to time and firms have the responsibility to satisfy such needs and stay ahead of the competition. In addition, Rowe (1994) mentioned that according to Forker (1991) meeting customer needs is only a starting point, but surpassing customer expectation should be the goal of every organization. In early 1900s, Henri Fayol (1987) suggested the use of planning as a tool for improving corporate performance. He further observed that management means looking ahead, he noted that management is all about foresight or at least it is an essential part of it. He explained that to foresee in the foregoing context means to assess the future and make provision for it.

Strategic Management has also been defined as the application of strategic thinking to the job of leading an organization. According to Steiner (1979), strategic management provides guidance, direction and boundaries for operational management. David (1997) indicates that strategic management is the art and science of formulating, implementing and evaluating cross- functional decisions that enable an organization to achieve its objectives. Pearce II and Robinson Junior (2002) noted that strategic management involves the planning, directing, organizing and controlling of strategic related decisions and actions of the business. They continued to explain that by strategy, managers mean their- large scale future oriented plans for interacting with competitive environment to optimize achievement of the organization objective. Aosa (1992) observed that different authors have defined strategy in different ways where some have defined it to include both goals and the means to achieve, others have narrowly defined strategy to include only the means to achieve the goals. Atebe (2006) agrees that there is no widely accepted definition of strategic management, but he noted that according to Green (1980) authors would agree that strategic management embraces some excellence, vision, core competencies, learning, empowerment, transformation and sustainable competitive advantage.

1.1.1 Strategic Management Process

Strategic Management Process consists of three stages namely strategy formulation, strategy implementation and strategy evaluation. These three stages are shown in the following diagram:

Figure 1.1: Strategic Management Process



Source: David (1997) Concepts of Strategic Management

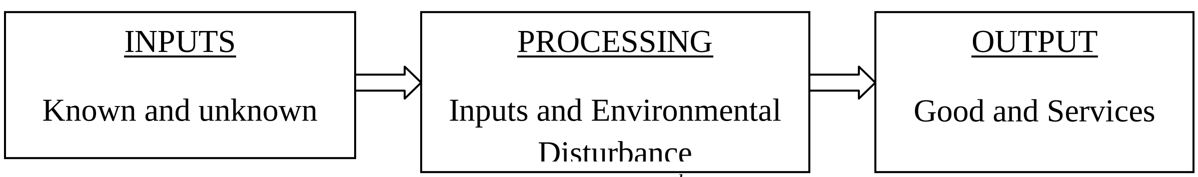
Strategic management is carried out at the top level of corporate organisation while implementation and evaluation are at functional level. Application of strategic management in organizations' activities ensures participation of stakeholders in decision making process. The collective participation improves the quality of decisions because many alternatives are obtained before choosing the most appropriate ones. It also creates a sense of belonging among staff which boosts morale and overall performance of the organization. David (1997) observed that strategic management focuses on integrating marketing, financial accounting, operation, research and development and computer information system to achieve organizational success. In addition, he noted that strategy implementation requires interpersonal skills and the participation of all managers and employees in an organisation. Jone (2010) noted that the use of strategic management in organizations enables managers at all levels to interact with planning and its implementation. Strategic management is essential in managing organizations due to its ability to connect all the activities in the organization so that there is unity of purpose. The connectivity of activities arises because strategic management directs efforts to the core competencies of the organization. All activities will therefore, revolve around what the organization is expected to achieve and the values it stands for. Activities undertaken in the strategic management process ensure unity of action and efficiency in the organization's performance. Strategic management is broad, future oriented and has multifunctional consequences to the organization.

1.1.2 Organizations and Environment

Organizations are open systems and they depend on the environment for their inputs. The environment also provides the market for organizations' output. Wheelen (2008) noted that the external environment consists of both opportunities and threats that are outside the organization and not typically within the control of top management. Thompson (2007) asserts that all companies operate in a macro-environment that includes all relevant factors and influences outside the company's boundaries. Rowe (1994) indicated that strategic management strives to link internal to external environments and relates the internal capabilities to the external opportunities and treats in order to establish strategies that enable the organization to achieve its objectives and values.

Organizations being open systems interact and exchange information, energy and materials with the environment. Lucey (1996) explained that in order for organizations to ensure survival, adaption to changes in the environment is vital and only open systems have this capacity. The relationship between organizations and the environment is illustrated in the diagram below:

Figure 1.2: Organization and the Environment



Source: T. Lucey (1996), Management Accounting, 4th Edition.

Formalization of strategic management depends largely on the size and complexity of the organization. Pearce (1999) noted that greater formality promotes success of planning, accuracy and reduces costs. It provides a framework of the organization's activities and acts as a road map towards the attainment of its mission. Strategic management provides managers with a guide for decision making.

1.1.3 Strategic Management and Resource Allocation

Resource allocation is a quantitative plan that sets out organizations' sources and application of funds within a specified period of time commonly one year. Kaplan (1998) indicated that once an organization has developed its short term plan, it can project the operating and financial consequences of that plan over short run planning horizon usually one year. He continued to elaborate that planners are interested in developing estimates of cash flows and resource requirements so that they can arrange to meet capacity and financing requirements in a systematic way.

Resource allocation is pegged to strategic corporate plan, a document that stipulates an organization's long term plan to achieving its strategic goals. A strategic plan covers a longer period of time, for instance five years. Resource allocation takes place at the second level of strategic management process, which is strategy implementation. At this level, organizations establish annual objectives and allocate resources so that formulated strategies can be executed. David (1997) noted that strategy formulation without being implemented does not serve any useful purpose. Thompson and Strickland (1989) viewed implementation as acting on what has to be done internally to put the formulated strategy into place to achieve the targeted results. Hunger and Wheelen (1995) noted that strategy implementation is the process by which management translates strategies and policies into action through the development of programs, budgets and procedures.

In Kenya, the Government spends huge sums of money to run its annual activities. The basic function of a budget is collection and allocation of scarce resources to priority sectors, provision of public goods and services and redistribution of income. In addition, the budget strives to ensure economic stability, social order and harmony. It also acts as a measure of Government Performance and Accountability (Institute of Policy Analysis Research 2004). The Kenya Government under the State Corporation Act Cap 446 of 1987 requires State Corporations to submit their annual budget proposals for their expected revenues and expenditure to their respective parent ministries not later than end of February of each year. The Constitution of Kenya, 2010 requires such budgets to be submitted not later than 31st January each year. The Constitution requires the budget to be subjected to public vetting before it is discussed in parliament. The budget process has improved over time in terms of transparency and accountability.

Organizations are careful when allocating resources to their activities due to the scarcity of resources. David (1997) indicated that no organization has unlimited resources therefore strategists must decide which alternative strategies will benefit the organization best. Allocation of resources is done through a budgetary process and involves assessing the organizations revenues and expenditure for the activities covered in a period. It is important to note that the budget which is a quantitative plan has a big impact on the organisations performance and profit generation.

David (1997) noted that strategic implementation is done through annual objectives which are short-term milestones that organizations must achieve to reach long-term objectives. These annual objectives represent the basis for allocating resources. Resource allocation arises due to the need to restrict expenditure in order for the organization to achieve its objectives and continue to survive in stiff business competition. It is essential for organizations to strictly adhere to budgets in order to gain cost advantage. Thompson

(2007) noted that a company achieves low-cost leadership when it becomes the industry lowest cost provider rather than just being one of the several companies with competitive low costs. Organizations experience scarce resources all the time hence the need to work on choices in order to pick activities that are crucial to the organization's overall performance. Miller (1988) observed that scarcity means people do not and can not have enough income, time or other resources to satisfy their every desire. For organizations, money is a scare resource whose use requires planning in form of budget projections.

1.1.4 Kenya Pipeline Company Limited

Kenya Pipeline Company Limited (KPC) was incorporated in 1973 under the Companies Act (Cap 486) and started commercial operations in 1978. The Company is a state corporation under the Ministry of Energy (MOE) with the Government of Kenya holding 100% shares. The company operations are governed by relevant legislations that include the Company Act, Finance Act, The public Procurement and Disposals Act and Public Service Ethics Act.

KPC operates a pipeline system for refined petroleum products from Mombasa to Nairobi and to Nakuru, Eldoret and Kisumu. The company is also charged with facilitating implementation of Government policies and acts as a government agent in specific projects as directed through the parent ministry. KPC does not depend on government subsidies but is a source of revenue to the Government in form of dividends and taxes.

The objective of setting up the Company was to provide the economy with the most efficient, reliable, safe and economical means of transporting petroleum products from the port to the hinterland. The Company's mandate is to:

Build a pipeline for conveyance of petroleum or petroleum products from Mombasa to Nairobi, for the account of the Company or for the account of others, and any other pipelines in East Africa as the Company may determine,

Own, manage or operate such pipelines and other facilities and such other plant, equipment and installations, movable and immovable, as the company may consider desirable and to manufacture, construct, maintain or modify any of these works and

Market, process, treat and deal in petroleum products and other products and goods that may conveniently be dealt in by the Company and to provide transport and other distributive facilities, outlets and services in connection therewith.

1.2 Research Problem

Organizations experience resource constraints in implementing strategic plans. Costs are incurred at the strategy implementation stage where resources are allocated to activities for action. A good strategy that cannot be implemented creates no real value. Effective implementation begins during strategy formulation when questions such as "how do we do it" should be considered. Effective implementation takes place when organizations' resources and actions are tied to strategic priorities, when key success factors are identified and when performance measures and reporting are aligned. According to Thompson and Strickland (1989), implementation of strategy is largely an administrative activity and successful implementation depends on working through others, organizing, motivating, culture building and creating strong fits between strategy and how the organization does things.

Many studies have been done in the field of strategic management practices and strategic corporate planning but little has been covered on resource allocation which occurs in the implementation stage in strategic management process. This gap is the driving force behind this study which is intended to show the relationship between strategic management and strategic implementation through resource allocation.

Other studies carried out on resource allocation include those by (Osoro 2001, budgetary control in Non Governmental Organisations(NGOs) in Kenya, a case of world vision, Muleri 2001, budgetary practice among Non Governmental Organisations (NGOs), Kadondi 2002, capital budgeting used by companies listed in Nairobi Stock Exchange, Ambesta 2004, budgeting practice used by commercial banks). These studies however, have not dealt with resource allocation and its relationship to strategic management.

This study will examine KPC's recourse allocation to various activities. Resource allocation process is a step by step process that ensures only activities that promote the organization's strategic objectives are funded. Limitation of resources is a major constraint in strategic implementation. The study will seek to answer the following questions: What role does strategic management play in KPC's resource allocation process? What challenges does KPC face in its resource allocation process and what mitigate factors can address these challenges?

1.3 Research Objective

The objective of the study was to establish the role of strategic management in resources allocation in KPC, establish challenges faced by the Company in resources allocation and recommend mitigating factor.

1.4 Value of the Study

The research will be of value to the Management of KPC who will use the project's findings to address areas of weakness in its resource allocation process. It will help the company to improve effectiveness and efficiency of activities in order to make savings that will improve the overall performance of the organization. Academic students will benefit from added knowledge in the topic of strategic management and resource allocation. From the recommendations for further studies, they will have an opportunity to explore other areas that the report did not address. The general public will benefit from added knowledge in strategic management and budgeting.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides a theoretical framework upon which this study is based. Overviews of strategic management and resource allocation have been explored. It examines briefs in literature done by prior researchers, scholars, analysts and authors on related topic.

2.2 Overview of Strategy

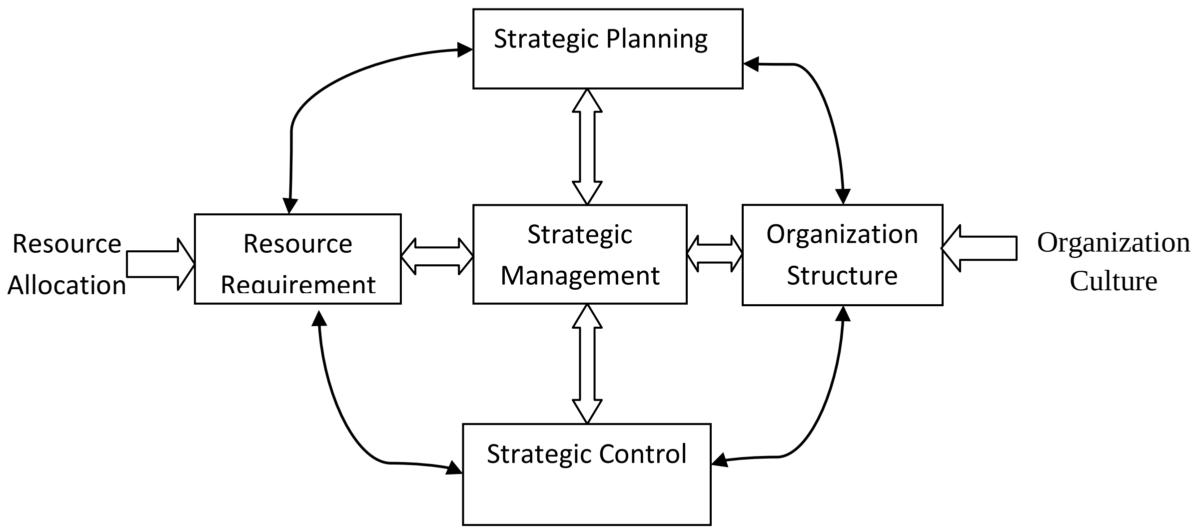
According to Thompson (2007) a company's strategy is all about how, how management intends to grow the business, how it will build a loyal customer base and outdo the competitors, how each function piece of the business will be operated, and how to improve business performance. According to wheelen (2008) strategic management includes environmental scanning, strategy formulation, implementation, evaluation and control. It is about continues monitoring and improvement of business processes, procedures and policies to ensure the organization remains focused on its core objectives. It is also a set of decisions that guide the organization to achieve its goals. Pearce (2002) indicated that strategic management involves planning, directing, organizing and controlling of strategy related decisions and actions of the business. He continued to explain that by strategy, managers mean their large – scale, future oriented plans for interacting with the competitive environment to optimize achievement of the organization's objectives.

According to Pearce and Robinson (1991) strategic management is a set of decisions and actions that result in the formation and implementation of plans designed to achieve an organization's objectives. Mintzberg (2002) identified the five Ps in defining strategy which are Plan, Ploy, Pattern, Position and Perspective.

2.3 Role of Strategic Management in Organizations' Resource Allocation

A budget is a quantitative plan, plans are the most systematic reports that document what to be done, who is to do what, what time and what resources are required. Plans are tactical and not strategic and focus on specific activities. A budget according to Horngren (1996) is a condensed business plan for the forthcoming year. He added that managers need budgets to guide them in allocating resources and maintaining control and to enable them to measure and reward progress. Mckinsey (1922) indicated that early efforts in corporate strategy were generally limited to the development of budget with managers realizing that there was a need to plan the allocation of funds. Later in the 1900s budgeting improved to include forecasting into the future. Resource allocation is a means to strategy implementation. The role of strategic management in organizations' resource allocation is well explained by Rowe (1994) through a strategic four-factor model. The model explains how organizations' strategy must balance the demand imposed by external and internal forces, suit the overall functioning of the organization and use resources in a manner that meets goals and satisfies values. This explanation can be seen clearly in figure 2.1 below.

Figure 2.1: Strategic Management Model



Source: Rowe (1994), Strategic Management, a Methodological Approach, 4th Edition.

From the diagram, it is apparent that resource requirement links strategic management to the organization's resources that include land, plant equipment, finances, information, personnel and goodwill. The resources are allocated to the organizations' requirements after determining their viability and value to the organization. The relationship between strategic management and resource allocation is clearly demonstrated by Steiner (1979) when explaining the relationship between top management and strategic planning at formulation and implementation stages. Steiner cited Peter Drucker's definition of this relationship and noted that the work of strategic management can only be carried out by an organ of the organization that can see the entire business. He noted that this organ is the one that can make decisions that affect the whole organization, can balance objectives and needs of current period against the future and can allocate resources of men and money to key results.

Jerry (1977) explains that developing and adopting a budget is beneficial. He noted that preparation of a budget is only the beginning in the continuing process of planning and controlling the organization's future. Lucey (1996) explained that budgetary planning is the process of preparing detailed, short- term (usually 1 year) plans for the functions, activities and departments of the organization thus converting the long – term corporate plan into action. He added that the annual process of budgeting should be seen as stages in the progressive fulfilment of the long- term plan for the organization.

Organizations allocate both financial and non financial resources to activities marked for implementation in a specific period. Progress monitoring is important in order to establish risk of non-performance which would prevent achievement of the organizations objectives. It is important to control expenditures during the progress of activities. Monitoring and control work hand in hand to ensure allocated resources are put to the intended use. Monitoring ensures that mistakes are promptly corrected to avoid waste of time and money that would occur when correcting errors noticed long after they were done.

Budgeting is done by way of analysing historical data, the operating environment and forecasting. Managers plan their work during strategic planning and they also work their plan at the strategy implementation stage of strategic management process. Pearce (1991) indicated that the shifting of the mangers roles from planning to implementation gives rise to three inter related concerns which are identifying measurable mutually determined annual objectives, developing specific functional strategies and communicating concise policies that guide decisions. Russell (2002) noted that a budget is a plan of action expressed in financial terms and relates to a future period. He adds that a budget should encompass all the activities of the organization in its preparation.

Budgets which are organizations' annual objective are specific and measurable and organizations' units are expected to contribute towards the overall organization strategy. Budgets set standards against which performance can be measured. Organizations differ in character and size resulting to differences in terms of budget formulations. Most organizations' budgets contain the Revenue, Capital and Recurrent Expenditures. Revenue budgets comprises the forecasted sales and any Miscellaneous Income, Recurrent Expenditure are cost on non capital items that are incurred in generation of income while Capital Expenditure include cost of machinery, furniture plant and equipment.

2.4 Challenges in Resource Allocation

Organizations are faced with challenges when allocating the limited resources to projects and activities marked for implementation in a specific period. Organizations are careful not to allocate too much resource for fear of wasting the limited resources and too little allocation would stifle strategic implementation. Successful strategic implementation requires strong leadership, proper resource allocation, business processes and policies that support the strategies and very high level focus.

Organizations are faced with challenges in allocating the scarce resources to activities and thorough analysis is carries out to establish whether the plans are feasible undertakings that will guarantee returns that fulfil the organization's objectives. Rowe

(1994) noted that to survive in today’s global market, organizations must focus their efforts where they can achieve the best possible cost advantage relative to their competitors. This requires strategic analysis of different scenarios in order to establish the most cost effective expenditure for the organization. Competition has grown over the years and business undertakings have continued to face challenges. These challenges have forced the organizations to strive for better cost containment measures to remain in business. Smith rightly asserted that “when you run a company or a business you want to reap a huge return to benefit your investment of time and money” (Smith 2011). It is important to note that cost is a factor of an organization’s profits such that the lower the costs the higher the profits, the opposite is true.

Resource allocation focuses primarily on expenditure and pays little attention to the results obtained after incurring such costs. For example an organization’s marketing manager may fail to undertake an opportunity to sell more by increasing the travelling of the sales staff if he/she notices that such expenditure will exceed the allocated/ budgeted amounts. This will deny the organization extra sales that would have exceeded the costs the company is avoiding to incur. Production costs for example are directly linked to the organization’s production and it would be unwise for the company to cut down its production citing budget constraints.

Another challenge of resource allocation is on its preparation. In many organizations, the budgets are prepared on the basis of historical data rather than the future performance. This tends to paint a wrong picture of the future but focuses on the company’s past trends. However, this limitation is addressed by putting emphasis on flexible and zero based budgeting.

Budgets have a tendency of de-motivating staff especially when the targets are too high and the employees feel they may not be achieved. It is also important to have all employees buy into the budget for full implementation to be attained. In addition, unrealistic budgets can lead to managers making decisions that can be disadvantageous to the organization. Due to the changes in the external environment, the budgets if not revised can mislead. The circumstances that are considered when setting the budgets change over time and new circumstances emerge, these require regular reviews in order to align the resources to prevailing situations.

Resource allocation is time consuming and costly. It involves organizations' top management, chief officers and senior officers at all levels. They prepare their respective department's and section's budget before they are presented to a Budget Committee who sits in many sessions. The process takes months depending on the length of the organization's resource allocation process.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research design, data collection, methods of collection, data analysis and procedure used. The study adopted a qualitative design. There are many methodologies used in various types of research. Kothari (2008) argues that there are two basic approaches to research, which are quantitative and qualitative approaches. Qualitative approach involves generation of data in quantitative form that can be subjected to rigorous quantitative analysis in a formal and rigid fashion. Qualitative research on the other hand is concerned with subjective assessment of attitude, opinion and behavior. Comprehensive research should try to incorporate both methodologies but this is not always possible due to limitation of time and funds.

Research methodology is a collective term for the structured process of conducting research. Deryck (2009) defined methodology as a highly intellectual human activity used in the investigation of nature and matter and deals specifically with the manner in which data is collected, analyzed and interpreted. According to Kumar (2005), research methodology is a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically.

3.2 Research Design

This research adopted a case study design. A case study places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Kothari (1990) indicated that a case study is a very powerful form of qualitative analysis that drills down than casts wide.

According to Mutai (2001), research design refers to the procedures to be employed to achieve the objectives of the research. Kumar (2005) indicates that through a research design the researcher conceptualizes an operational plan to undertake the various procedures and tasks required to complete the study. According to Kothari (2004) a good research design is characterized by flexibility, appropriateness, efficiency and economy. Research design is always based on the research questions and guides in selection of sources and types of information for the research (Cooper & Schindler, 2003).

3.3 Data Collection

The respondents were the Company’s 10 chief officers. The researcher settled on these respondents because they are charged with the responsibility of managing their respective section’s resource allocation process. Both primary and secondary data were used. The primary data that was collected through an interview guide was used in arriving at the conclusion of the study. The interview guide was structured to give information on the role of strategic management in resource allocation in KPC. The guide also picked challenges faced by KPC in its resource allocation process and recommendations on mitigating factors.

The secondary data was derived from the Company’s strategic corporate plan, the Company’s resource allocation policies and processes and past management decisions on resource allocation. KPC being a state corporation is answerable to the Kenya

Government, the researcher sought information form government circulars on resource allocation guidelines.

3.4 Data Analysis

The data collected was systematically organized, analyzed and interpreted using descriptive statistics. Hoyle (2002) explained that data analysis for qualitative research is translated into quantitative information using content analysis, a process of extracting desired information from text by systematically and objectively identifying characteristics of the text. Tromp (2006) argued that content analysis examines the intensity with which certain words have been used and systematically describes the form or content of written or spoken material.

The researcher analyzed the frequency with which the same ideas were presented and interpreted these ideas on the basis of importance and direction. The researcher used frequency tables, percentages and mean scores in the analysis of the data. Lastly, the researcher analyzed the meaning and implication of the data in order to obtain the research finding and conclusion.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the data analysis, results and discussions in relation to the objectives of the study of establishing the role of strategic management in resource allocation in KPC. The study also established challenges faced by the Company in its resource allocation process and recommended mitigating factors to address the challenges. Both primary and secondary data was used in pursuit of the objectives. The target respondents were 10 chief officers of the Company who play a major role in the resource allocation process being heads of their respective sections and charged with the responsibility of managing their sections' resource allocation process.

4.2 Data Analysis

The response rate was 80%, the non response of 20% was due to work exigencies for some officers. Data obtained was analyzed using narrative analysis which is written accounts of personal experience told either to oneself or somebody else. Narrative analysis range from simple response to open-ended questions in that they have the structure of the topic.

The researcher through the interviews tested the officers' familiarity of the Company's strategic corporate plan. The knowledge level was high at 88%, it was observed that 12% respondents who did not demonstrate knowledge of the variable were fairly new staff who were still in the Company's induction process. The researcher further sought to find out the respondents' knowledge of the role strategic management plays in the Company's resource allocation process. By narrating the strategic management processes during the interview, the respondents were able to demonstrate the relationship between the Company's vision and mission statements and the strategic objectives. Strategic management plays an important role in resource allocation as indicated by the results of the study with 87% of the respondents being able to link strategic management process to resource allocation while 13% were not familiar with the relationship.

4.3 Results of the Study

From the qualitative data obtained and subsequent analysis, it is apparent that strategic management plays an important role in the Company's resource allocation. The results demonstrate that the Company's chief officers appreciate the role of strategic management from where the Company draws its objectives which are reflected in the corporate strategic plan. The objectives are picked for implementation on an annual basis through resource allocation process.

Kenya Pipeline Company Limited was incorporated in 1973 under the Companies Act (Cap 486) and started commercial operations in 1978. The Company is a state corporation under the Ministry of Energy with the Government of Kenya holding 100% shares. The Company's operations are governed by relevant legislations that include the Company Act, Finance Act, The Public Procurement and Disposals Act and Public Service Ethics Act. The main objective of setting up the Company was to establish an efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland. KPC operates a pipeline system for refined petroleum products from Mombasa to Nairobi and to Nakuru, Eldoret and Kisumu. The Company is also charged with facilitating implementation of Government Policies and Acts as a Government agent in specific projects as directed through the parent ministry (MOE).

KPC does not depend on Government subsidies but is a source of revenue to the Government in form of dividends and taxes. The Company offers transport, storage and dispensing petroleum products and other related services.

It was established that KPC has a corporate strategy in place that covers five years. This is a standing document that sets out the Company's long-term objectives. The Company has a vision and mission statements which give the direction and steers the Company towards its set objectives. KPC's main objectives include, enhancing financial performance, maintaining the integrity of the pipeline, maintaining security and safety measures, taking advantage of the emerging technology to improve efficiency in the Company's operations, maintaining and retaining skilled and motivated members of staff and business diversification. From the analysis, the Company's corporate strategy is reviewed from time to time to incorporate new objectives for example Government plans, such as those set for economic recovery and vision 2030. The resource allocation process is lengthy and starts when finance department issues a notice to all departments to give proposals of their intended resource requirement for the subsequent year. The proposals are keyed into a system template ready for presentation. The resource allocation committee receives presentations and elaborate justification from department and section heads. It was noted that departments consider both internal and external variables when preparing their resource proposals. This is important because the business environment is dynamic and variables such as cost of goods and services change with the changing business environment.

The committee ensures that allocation of resources is consistent with the Company and Government policies and guidelines respectively. The government issues resource allocation guidelines prior to resource allocation process that is done annually. The committee is also keen in seeing that resources allocated to departments leave enough profits to cater for the Company's growth and development. The committee in ensuring that the Company achieves the desired return on capital employed (ROCE) may reduce the amounts of proposed resources or push some items to the subsequent year. The respondents indicated that the main cause of reducing resource allocations was due to limitation of resources.

KPC experiences various challenges in its resource allocation process. It was observed that it was difficult to determine actual revenue and expenditure to be incorporated in the resources allocation proposals. During resource allocation process, both the expected revenue and activities' costs are based on estimates. The estimates in most cases do not agree with actual income and expenditure amounts. This results to variances that would prevent implementation of scheduled activities. The resource allocation shortfall stifles the Company's development and growth rate. The study revealed that the stakeholders do not get clear instructions on the Company's resource allocation process. Concise instructions to stakeholders for example details of what is expected in the process would reduce time spent during the process. The Company receives resource allocation guidelines from the government prior to annual resource allocation preparation cycle. The guidelines are expected to be cascaded to the stakeholders to assist them in the preparation of their respective resource allocation proposals. It was however noted that the government circulars are received long after the process has started.

It was also observed that the time allocated for departmental presentations was not enough. This was explained, prevents stakeholders to fully defend their proposed resource requirements. This challenge would be addressed if resource allocation process was started earlier to avoid rushing the process to meet strict deadlines. In addition, it was observed that finance department receives departmental submissions on resource allocation late, this does not give adequately time to compile, deliberate and identify real departmental needs. It was further established that KPC does not emphasize on the link between strategy and resource allocation. The Company would adversely be affected if the resource allocation process was done without paying attention to the contents of the strategic corporate plan. Strategic Corporate plan has long term objectives that are picked on an annual basis for implementation which is only possible with availability of the required resources.

Resources allocation process was said to be time consuming, the cycle starts with planning the activities to be implemented in the respective year with reference to the Company's strategic corporate plan. Other activities in the resource allocation proposals include routine works for example maintenance of plant and equipment, motor vehicle servicing and general cleanliness. The Company's heads of departments forward their proposals to finance department for compiling, the compiled resource allocation proposals are then forwarded to the resource allocation committee who receives presentations from departmental and sectional heads during the resource allocation deliberations. These sessions are long and many man hours are spent before the draft budget is recommended for management approval. It was also observed that the Company experiences resource limitation which is witnessed when departments present their proposed resource needs to the committee who scrutinize all items and occasionally recommend reduction of some of the proposed expenditure in order for the Company to attain a preferred ROCE.

The study identified mitigating factors that if adopted by the Company would improve its resource allocation process. It was recommended that the Company initiates cost cutting measures to ensure that expenditure is maintained within the allocated amounts. The initiative would check against resource wastage and monitor expenditure against allocated funds. Another factor is for the Company to increase resources allocated to departments depending on the needs. It is important to note that resources are scarce and are not enough to enable the Company to undertake all activities at the same time. The option is to prioritize activities and pick those that add the most value to the Company while postponing others to subsequent years. This was observed would ensure that the activities which are crucial to the Company's objectives are given preference in resource allocation. Another mitigating factor is outsourcing the Company's non-core services, for instance cleaning, security and transport services. This would enable the Company to shift administrative works to third parties while it concentrates on core activities which include maintenance of plan and equipment. The study established that sharing of common resources such as printers, computers and communication equipment would save the Company the cost of duplicate purchasing.

4.4 Discussions of Finding

Kenya Pipeline Company Limited being a State Corporation is the property of the Kenya Government. It is the government's desire that the Company creates value, this can be achieved through achievement of high returns on its invested funds in order to sustain itself and contribute to the national income through payment of dividends and taxes. In addition, the company should register growth through expansion, diversification and contribute to the country's economy through creation of employment. In order to achieve good returns, growth and continue in business, the Company should emphasize on risk management practices.

For the company to thrive, good corporate governance is an essential component that ensures value for money. Investment in technology ensures improvement of business processes and adherence to internal controls that seek to safeguard the Company's assets. Investing in processes such as International Standards of Operation (ISO) certification ensures good management practices that boost controls and improve the Company's performance. Corporate strategic plan is a standing document that guides the organization towards achievement of its long term objectives. The Company's objectives are reviewed from time to time to ensure that they remain relevant to the organization and kept in line with the dynamic business environment.

The short term objectives that are drawn from the corporate strategic plan are incorporated in the annual plans commonly referred to as annual resource allocation. The planned activities can only be implemented through resource allocation process that ensures sufficient resources are availed for accomplishing the work.

Through the stages in the strategic management process, it is apparent that in an ideal situation, strategic management plays a big role on a company's resource allocation process. Steiner (1979) argues that resource allocation is integrating methods to translate strategic plans into current actions. He summarized this relationship by stating that strategic planning is inextricably interwoven into the entire fabric of management, it is not something separate and distinct from the process of management.

Peter Drucker (1973) explained the role of strategic management in resource allocation by defining the risk of management as that of formulating and implementing strategy. He further noted that the task of thinking through the mission of the business is of asking questions such as what is the business and what should it be?

The role of strategic management in resource allocation is put forward by Thompson and Strickland (1993) when defining who a strategic manager is, he indicated that every manager is a strategy-maker and a strategy-implementer for the areas he/she has authority over and supervises. It means that for every strategy an implementation is important for an organization to add value. Implementation is carried out through allocation of necessary resources to carry out scheduled activities. According to Pearce and Robinson (1991) annual objectives translate long range aspirations into this year's activities whose implementation requires resource allocation.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the findings, conclusion and recommendations. Findings are derived from analyzed data while conclusion and recommendations for action have been drawn from the study.

5.2 Summary of Findings

The study whose respondents were the Company's ten chief officers was carried out through an interview based on an interview guide. From the analyzed data, it was found that strategic management plays a major role in resources allocation in the Company. This was apparent from the respondents explanations of the steps followed in the resource allocation process. Key activities are picked from the Company's strategic corporate plan which forms part of strategic management process. The results of the study showed that resource allocation is at the strategy implementation stage in the strategic management process. At this stage, objectives need to be implemented but implementation requires resources that are done through the resource allocation process. The Company identifies crucial activities that if successfully implemented would meet its objectives. These activities are allocated resources according to the Company's resources allocation policies and guidelines. Management of allocated resources is charged to the departmental and sectional heads who control the expenditure and ensure that only activities that were approved are implemented. Periodic resource utilization performance reports which indicate progress activity implementation and variances are issued to heads of departments and sections. Any comments on corrections for example miss postings are invited from the stakeholders and serves as a control measure against over expenditure.

The allocation of resources is done as a result of needs tabled from various departments of the Company. Resource proposal circular is prepared by the Company's finance department and circulated to all departments. The circular gives guidelines of the resource preparation as stipulated by the government through guidelines issued before resource allocation preparation. The circular also sets out the deadline of submitting the proposals. On receipt of all departments' proposals, finance department updates the resource allocation template and issues another circular together with the first draft resource allocation. A timetable showing when each department is expected to present its proposal to the resource allocation committee is included in this circularization. During the presentations, justifications for all intended expenditure are given by stakeholders for the committee's consideration. The items included in the proposals should be those reflected in the corporate strategic plan and routine works such as maintenance of plant and equipment, repairs and cleaning services. The draft resource allocation recommended by the committee is forwarded to the Company's management for approval before being subjected to the Board of Directors' scrutiny. When approved by the Board, it is then forwarded to the MOE from where it is dispatched to Ministry of Finance - Treasury. The deadline for submitting the resource allocation proposal to MOE is 31st January.

The approved resource allocation document is send back to the Company through MOE. Once received in the Company, The Managing Director forwards it to finance department to be keyed into the System Application Product (SAP) System from where monthly monitoring is done. Monthly resource allocation performance reports are issued to heads of departments and sections for information and comments. Authorized members of staff can access these performance reports online.

Challenges are intrinsic in any form of management and KPC resource allocation process and management are not immune in this regard. Due to resource scarcity, sufficient funds are not always available to all departments to accomplish their set goals. In most cases, allocated resources run out and reports show negative variances. This happens because activity costs are based on estimates that do not match the actual expenditures. Prices of goods and services increase from time to time depending on prevailing economic conditions such as inflation and depreciation of the local currency in relation to international currencies. KPC has a budget control system that disallows procurement of items whose budgets have been exhausted. A concerned department is required to seek management approval to borrow funds from one vote to another to allow procurement of such goods and services. Another challenge is that of budget deliberations which consume a lot of Company time. Many man hours are spent in the budgeting process. More automation where vote holders can give their proposals direct to the budget template would cut down on the many hours spent.

5.3 Conclusion

The objective of the study was to find out the role of strategic management in resource allocation in KPC. The study established challenges faced by KPC in its resource allocation process and recommended mitigating factors.

The study revealed that strategic management plays a major role in the Company's resource allocation process. During the interview, the respondents explained the process of resource allocation in the Company. It was noted that KPC pegs its resource allocation to the objectives of the Company as stated in the corporate strategic plan. The Company's objectives are derived from the Company's vision and mission statements. The relationship between the vision and mission statement and the Company's objectives demonstrates the existence of strategic management process in the organization. Strategic management process entails three stages which are strategy formulation, strategy implementation and strategy evaluation. Resources allocation is carried out at the strategy implementation stage. This is where the Company's activities and projects scheduled for implementation are allocated financial and non financial resources to enable accomplishment. The study further observed that only activities and projects that have been scheduled to be performed in a certain period of time are funded. This means that no activity or project outside the schedule can be carried out. This control is important for the Company so that efforts and resources are concentrated to profitable activities and projects.

Some of the challenges identified include failure to accurately determine the revenue and expenditure to be included in the resources allocation proposal. It was also observed that business environment is dynamic and economic variables change with the changes in the environment for example drought. Hard business operating environments result to inflation which causes increase in prices of goods and services. It is important to note that such environments may not be predicted with certainty. The scarcity of resources is another challenge that featured prominently in the study. On many occasions, resource allocation proposals are reduced or items removed due to unavailability of resources.

Resource allocation process was observed to be time consuming. Stream lining of the system through automation of the process was recommended to address this challenge.

5.4 Recommendations

The study pointed out areas of improvement that the Company could implement in order to streamline the resource allocation process. It is recommended that the Company automate resource allocation process with a view of hastening the process and enhance controls. If automated, the stakeholders would submit their resource allocation proposals online where a direct link would enable capturing of data directly to a resource allocation template. It was observed that currently data is manually keyed to the system, an exercise that spends time. It was observed that detailed justifications for resource requirements should be provided by stakeholders. These include Cost Benefit Analysis (CBA) of intended activities. In addition, all economic variables for example effects of inflation and changes in interest rates which directly affect the cost of goods and services should be explored. These requirements would ensure that only viable projects and activities are undertaken resulting to reduction of resource wastage.

It is recommended that the Company decentralizes the activities that are specific to respective sections for example training of sectional staff. In the current practice, resources allocation for training is centralized under human resource department. This requirement will enable sections to manage their activities in the best possible way for example train staff according to the section's needs. It was also recommended that heads of sections be given full authority to implement the budget as opposed to the current practice where heads of departments have final authority. It was observed that if this recommendation was adopted, it would result to effective implementations of scheduled activities and projects. Another recommendation is that of mainstreaming resources allocation process in the Company. It was observed that for more impact, the Company should incorporate the resource allocation process into performance management process. This would ensure that the task is not one off but a continuous review exercise. In addition, it was recommended that resource performance reviews be done on half year basis. This would give the Company an opportunity to correct adverse trends before the end of the financial year.

It was observed that insufficient instructions are given to stakeholders prior to preparation of resources allocation proposal. The Company's targets for the year in which resources are required are not spelt out to enable concerned officers to peg their sections' resource requirements on the Company's intended goals. It was however noted that such information is obtained from the Company's corporate strategic plan but due to the timelines set for submission of resource allocation proposals, reference to the document is some times overlooked. It was recommended that the contents of the corporate strategic plan for the year should be circulated to the officers for ease of reference. The knowledge of the Company's targets would enable stakeholders to appreciate the actions taken by the resource allocation committee in reduction of the proposed resources.

It was further recommended that the resource committee be sensitized on sections' roles and needs. This was observed would assist the team to be more receptive to sections' resource needs. Such understanding would reduce cases where the committee reduces proposed resources. It was noted that most activities are not implemented as scheduled when proposed resources are reduced or expunged. It was also recommended that the Company encourages resource sharing in order to maximize the use of internally available resources. The Company would safe if it would places shared resources such as computers, printers and motor vehicles in a pool for joint access. The Company would also use readily available resources in the Company for example use of professional staff to carry out consultancy services as opposed to external sourcing which is more expensive.

5.5 Limitation of the Study

The study targeted the Company's chief officers whose views might not be the position held by other members of staff if they were subjected to the same study. It is observed that at this level, the officers are quite familiar with resources allocation process, a case that would be different to other members of staff. Future studies would be extended to cover other staff in order to establish if the same results would be obtained.

The study was done within a limited time frame, future studies would be given more time to look into areas where this study did not cover.. Lastly, the study was limited to KPC therefore the findings can not be applied to other state corporations.

5.6 Suggestion for Further Research

In future study of the same topic, it is recommended that a cross section of staff be included into the sample space and find out whether the same results would be obtained. In addition, future research should be extended to include other state corporations in order to have a picture of the relationship between strategic management and resource allocation on a wider scale.

5.7 Implication of the Study

The study has fulfilled the initial object of establishing the role of strategic management in resource allocation in KPC. During the interview, the study established challenges in the process and recommended mitigating factors. The results of the study indicate that strategic management plays a major role in resource allocation process. It also brought out challenges faced by the Company in its resource allocation process and suggested mitigating factors. The study has recommended areas of improvement that if implemented would assist in streamlining resource allocation process in the Company.

The study has also provided a vital baseline for future studies of same topic. The Company's 10 chief officers were targeted, therefore this finding would change if different cadres of staff were brought in as respondents. Future studies would test the strategic management role, changes in the challenges faced by the Company in its resource allocation process and any improvement to the process arising from the implementation of recommended factors. This will establish the extent to which changes have taken place in regard to the challenges highlighted in this study and the impact of the recommendations that have been put forward.

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APPENDICES

Appendix I – Interview guide

Part 1 –Respondent's personal details

1. Name: ------------------------------- 2. Section: -------------------
3. Position Held: ---------------------------- 4. Years worked with KPC: ----------

Part II –Questions testing the existence of strategic management practice in KPC

1. Does KPC have a vision and Mission statement?
2. If yes, briefly state your understanding of the company's vision and mission
3. What is your understanding of strategic management and how is it related to strategic corporate plan?
4. What are the main components of KPC's strategic corporate objectives?
5. How often does KPC review its strategic corporate plan?
6. What role does resource allocation committee play regarding strategic corporate plan?

Part III –Questions enquiring the role of strategic management in resources allocation

1. Does KPC have an elaborate resource allocation process?
2. Briefly explain the process.
3. Explain the role of resource allocation committee in the process in 2 above.

4. Explain how KPC incorporates external factors into its resources allocation process.
5. Who has the final authorization of departmental allocated resources?
6. Does your committee face any difficulties in discharging its responsibility?

Part IV –Questions seeking to establish existence of challenges in resources allocation

1. What are the challenges faced by KPC in its resources allocation process?
2. Do all departments get full resource allocation for activities and projects proposed?
3. If no, what are the reasons for not getting full resource allocation?
4. How is the shortfall in resource allocation managed?
5. How does the shortfall allocation of resources affect the implementation of scheduled activities?

Part V –Questions seeking to establish mitigating factors of the challenges in IV above and recommendations for further improvement of the process.

1. In your view, what are some of the action the Company needs to undertake in order to improve its resource allocation process.
2. How would the Company address resource allocation shortfall.
3. Briefly give recommendation(s) on how to improve and manage the Company's resource allocation process.
4. What can the resource allocation committee improve on?
5. What would be expected of other stakeholders?

Appendix II - Letter seeking authorization to study Kenya Pipeline Company Ltd.

Mary Kemboi – Co. No. 1717

Kenya Pipeline Co. Ltd,

P. O. Box 73442-0200,

Nairobi.

15th June 2011.

The Managing Director,

Kenya Pipeline Company Ltd,

P. O. Box 73442 – 00200,

Nairobi.

Through Finance Manager

Dear Sir,

RE: MBA PROJECT STUDY

I am undertaking an MBA course in Strategic Management at the University of Nairobi (UON) for which I have completed part I of the course. Part II requires students to undertake a research as a partial fulfillment of the course.

This is to ask for your approval to use Kenya Pipeline Company Limited (KPC) in my proposed study of "**The Role of Strategic Management in OrganizationS' Resource Allocation: A case of KPC**"

Given the approval, I intend to examine resource allocation, for both Capital and Revenue activities, its coordination company wide and monitoring. I believe my study will indicate gaps that can be used to improve the process.

I look forward to your favorable consideration,

Yours Faithfully,

M. Kemboi.