

**RESPONSE STRATEGIES ADOPTED BY KENYA PIPELINE  
COMPANY LIMITED TO THE CHALLENGES OF OIL  
DISTRIBUTION IN KENYA**

**BY**

**CHRISTABEL MWIKALI MATITI**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIRMENT FOR THE AWARD OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF  
BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2012**

## DECLARATION

### STUDENT

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:

.....Date:.....

**Christabel Mwikali Matiti**

**Reg. No D61/62867/2011**

### SUPERVISOR

This research project has been submitted for examination with my approval as the University Supervisor.

Signature.....Date.....

**Prof. Martin Ogutu**

**Department of Business Administration,**

**University Of Nairobi**

## **DEDICATION**

I dedicate this work to my beloved sisters Mary and Josephine, my friend Gladys Nzive, my dear parents Matiti and Francisca and all those who supported me in the completion of this project.

## **ACKNOWLEDGEMENTS**

I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Prof. Martin Ogutu and Dr. ZB. Awino my moderator for their professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to them.

Thank you all. May the Almighty God bless you abundantly.

## **ABSTRACT**

Response strategies are the various measures that an organization employs in wake of threats in the environment it exists. Kenya Pipeline Company has faced a fair share of challenges in its quest to ensure efficient distribution of oil products in Kenya. This study set to achieve two research objectives including: determining the challenges faced by KPC in oil distribution in Kenya and establishing the response strategies adopted by KPC to cope with the challenges of oil distribution in Kenya. Strategic responses help an organization align itself with the changes in the operating environment so as to be able to achieve its set objectives. This study adopted a case study research design because only one organization was involved. The study used primary data collected using an interview guide. The interviews were administered to three senior managers of the Corporation following their experience and involvement in strategy development and execution at the Corporation. The interviews were administered through personal interviews. The data obtained from the interviews was mainly qualitative. Content analysis was used to analyze the findings. The study established that the strategies developed were tied to the overall corporate strategy to enable the Corporation attain its strategic goals. The challenges facing the Corporation were both internal and external. They included: Capacity constraints with the Sinedet line to Kisumu being smaller, long processes of clearing the products by other stakeholders at the depots leading to delays in oil marketers collecting their products; change in technology which made some equipment at the Corporation obsolete; long and bureaucratic government procurement procedures which caused delay in maintenance. KPC devised several strategies to counter the challenges emanating from the changes in its operating environment including: reviewing the petroleum supply chain infrastructure, systems and investment in the sector to guarantee reliable, efficient and cost effective supply chain; commissioning the construction of more storage facilities. The Corporation in conjunction with the Ministry of Energy developed guidelines which impose stiff penalties on oil marketers whose oil products overstay in the pipeline system and installation of flow meters to enhance product flow and distribution.

# TABLE OF CONTENTS

|  |             |
|--|-------------|
| <b>DECLARATION.....</b>                          | <b>ii</b>   |
| <b>DEDICATION.....</b>                           | <b>iii</b>  |
| <b>ACKNOWLEDGEMENTS .....</b>                    | <b>iv</b>   |
| <b>ABSTRACT.....</b>                             | <b>v</b>    |
| <b>TABLE OF CONTENTS .....</b>                   | <b>vi</b>   |
| <b>ABBREVIATIONS AND ACRONYMS.....</b>           | <b>viii</b> |
| <br>   |             |
| <b>CHAPTER ONE : INTRODUCTION.....</b>           | <b>1</b>    |
| 1.1 Background of the Study.....                 | 1           |
| 1.1.1 Concept of Strategy .....                  | 2           |
| 1.1.2 Response Strategies .....                  | 3           |
| 1.1.3 Oil distribution Industry in Kenya.....    | 4           |
| 1.1.4 Kenya Pipeline Company Ltd.....            | 6           |
| 1.2 Research Problem.....                        | 7           |
| 1.3 Research Objectives .....                    | 10          |
| 1.4 Value of the Study.....                      | 10          |
| <br>   |             |
| <b>CHAPTER TWO: LITERATURE REVIEW.....</b>       | <b>12</b>   |
| 2.1 Introduction .....                           | 12          |
| 2.2 Concept of Strategy.....                     | 12          |
| 2.3 Organizations and Environment.....           | 14          |
| 2.4 Challenges of Oil Distribution .....         | 15          |
| 2.5 Response strategies .....                    | 19          |
| <br>   |             |
| <b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b> | <b>23</b>   |
| 3.1 Introduction .....                           | 23          |
| 3.2 Research Design.....                         | 23          |
| 3.3 Data Collection.....                         | 24          |
| 3.4 Data Analysis .....                          | 25          |

|   |           |
|---|-----------|
| <b>CHAPTER FOUR: DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS .....</b> | <b>26</b> |
| 4.1 Introduction .....  | 26        |
| 4.2 General Information .....   | 26        |
| 4.3 Challenges of Oil Distribution .....                                  | 31        |
| 4.4 Strategies for Coping with the Challenges of Oil Distribution .....   | 35        |
| 4.5 Discussions of Findings .....   | 38        |
| <br>  |           |
| <b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>             | <b>41</b> |
| 5.1 Introduction .....  | 41        |
| 5.2 Summary of the Findings .....   | 41        |
| 5.3 Conclusions of the Study.....   | 43        |
| 5.4 Limitations of the Study .....  | 44        |
| 5.5 Suggestions for Further Research .....                                | 45        |
| 5.6 Recommendations for Policy and Practice.....                          | 46        |
| <br>  |           |
| <b>REFERENCES.....</b>  | <b>47</b> |
| <b>APPENDICES .....</b>   | <b>50</b> |
| Appendix: Interview Guide.....  | 50        |

## **ABBREVIATIONS AND ACRONYMS**

|             |                                   |
|-------------|-----------------------------------|
| <b>AGO</b>  | Automotive Gas Oil                |
| <b>IK</b>   | Illuminating Kerosene             |
| <b>KCB</b>  | Kenya Commercial Bank             |
| <b>KPC</b>  | Kenya Pipeline Company            |
| <b>KRA</b>  | Kenya Revenue Authority           |
| <b>MSP</b>  | Motor Spirit Premium              |
| <b>MSR</b>  | Motor Spirit Regular              |
| <b>NOCK</b> | National Oil Corporation of Kenya |
| <b>NSSF</b> | National Social Security Fund     |
| <b>WKPE</b> | Western Kenya Pipeline Extension  |



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Pearce and Robinson (1997), define strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. According to Johnson and Scholes (2002), strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates. The environment in which organizations operate is constantly changing with different factors influencing the organizations. This is because organizations are open systems that operate in environment that carries with it a lot of challenges and therefore firms must rethink their strategies (Pearson and Robinson, 2005).

The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). Strategic response is the reaction of a firm or an organization to environmental changes/turbulence. According to Pearce and Robinson (2005), it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

Kenya Pipeline Company Limited was set up to provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland (KPC, 2012). The Company is operating in an environment full of challenges following

the increased competition among its customers who are the oil marketing companies. This has made the Company to experience shortages of some products in various depots at different times especially for the products sharing the same infrastructure like Diesel and kerosene product (KPC, 2012).

### **1.1.1 Concept of Strategy**

Woods and Joyce (2003) depict strategy as a set of beliefs on how a firm can achieve success. They affirm that strategy is the main route to attain corporate goals and an objective, leading to enhanced long-term performance meaning that strategy is much more than beliefs and encompasses a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. The core concept of strategic management is strategy.

The iterative process includes predictions and forecasts on challenges and opportunities that an organization is likely to encounter in the external environment. However, an iterative process assumes a rational process and approaching strategy in the right way (Sauer and Willcocks, 2003). Even if there were strong pointers to a possible right way, it is arguably difficult for strategists to make decisions without reference to their own views on how strategy should be determined (Frishammer, 2003). Strategy formulation also involves significant intuition and philosophical thinking (Brockman and Anthony, 2002). A review of previous findings suggests that the impact of strategy on overall performance is not as clear-cut as one might expect.

### **1.1.2 Response Strategies**

A response strategy is the search for a favorable competitive positioning in the industry in order to beat competition and remain relevant in the market. In most corporations there are several levels of strategy they are corporate level, business level and operational levels. The “lowest” level of strategy is operational strategy and is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. According to (Porter, 1998), developing a competitive strategy is developing a broad formula on how a business is going to compete, what its goals will be and what policies would be needed to carry out these goals. According to Pearce and Robinson (2005) it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. Similarly, Aosa (1992) saw strategy as creating a fit between the external and internal conditions of a firm in order to solve a strategic problem.

Strategic responses adopted by companies reflect the firm’s internal strengths and the opportunities faced in the external environment. Strategy will also consider how best to deal with internal weakness and avoid external threats. Hill and Jones (2001) note that internal new venturing is a strategy employed when a company has a set of valuable competencies in its existing business that can be leveraged to enter a new business area. Science based companies use their technology to create market opportunities in related areas mainly through internal new venturing. A firm can also use this strategy to enter

and compete in a new business area or an emerging market where there are no established players.

There are two types of strategic responses. Operational response and strategic response. Strategic responses are experienced at two levels namely corporate and business levels. According to Johnson and Scholes (2000) corporate level deals with overall scope and purpose of the organization and it decides on the business of the organization. The business level strategy determines how the organization competes in its market. Operational refer to the responses developed to aid the smooth operation in an organization. They are mainly developed to ensure high level of effectiveness and efficiency in the achievement of organizational vision, mission and objectives. They provide daily directions in the organization. These strategies are important because of their detailed outline of how operations are supposed to be conducted in an organization (Johnson and Scholes, 2002).

### **1.1.3 Oil distribution Industry in Kenya**

Kenya has over 40 million people who depend on oil both directly and indirectly. Total Kenya Limited was first registered oil marketing company in Kenya on June 13, 1955 as OZO East Africa Petroleum Company Limited. Business operations however, began in 1959. The name was changed to Total Oil Products East Africa Limited on January 1, 1963. In keeping with the global strategy of the group, the last change of name to Total Kenya Limited was registered on June 11, 1991. Kenya Pipeline Company Limited was established in Kenya in 1973 with the mandate of owning, managing, operating and maintaining the pipeline system. Its main objective is to transport refined oil products as

economically and safely as possible, in such a manner as to minimize contamination, losses and meet the requirements of its customers. Kenol was formed in 1959 by Sir Reggie Alexander, a member of the Legislative Council. In 1984, Kenol bought Mobil its assets and renamed it as Kobil. Kenol and Kobil enjoyed supply deals with the National Oil Corporation of Kenya, which was responsible for supplying 30 per cent of petroleum to Kenya.

The construction of Mombasa-Nairobi pipeline was begun in October 1976. It was not until January 1978 that the project was completed and commissioned. The success of the Mombasa – Nairobi pipeline system, coupled with the need to enhance supply of petroleum products to Western Kenya and the neighbouring countries, KPC constructed the Western Kenya Pipeline Extension (WKPE) which runs from Nairobi to Nakuru, Eldoret and Kisumu. The WKPE was commissioned in March 1994. Currently there are 103 oil marketers in the country who help in oil distribution through their retail outlets across the country.

KPC safely and efficiently transports Motor Spirit Premium (MSP), Motor Spirit Regular (MSR), Automotive Gas Oil (AGO), Jet A-1 (for fueling aircrafts) and Illuminating Kerosene (IK). The Company plays a critical role in fostering development and growth in the region by ensuring sufficient and reliable supply of petroleum products. Apart from the domestic market, Kenya, the pipeline system serves the neighbouring countries of Uganda, Rwanda, Eastern Democratic Republic of Congo, Northern Tanzania, Burundi and Southern Sudan.

To aid the Company in oil distribution within the country, there are established tankers which transport oil via the road from the oil depots spread across the country to the retail distribution centres. This helps in distributing oil among the oil marketers in the country. Oil marketers also have their storage tanks where they get pumpovers from KPC then they distribute the same using oil tankers.

#### **1.1.4 Kenya Pipeline Company Ltd**

Kenya Pipeline Company (KPC) Limited is a State Corporation established on 6th September, 1973 under the Companies Act (Cap 486) of the Laws of Kenya and started commercial operations in 1978. The Company is 100% owned by the Government and complies with the provisions of the State Corporations Act (Cap 446) of 1986. The Company operations are also governed by relevant legislations and regulations such as the Finance Act, the Public Procurement Regulations, and Performance Contracting among others.

The main objective of setting up the Company was to provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company constructed pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. The Company's other mandate includes: building a pipeline for the conveyance of petroleum or petroleum products from Mombasa to Nairobi; owning, managing or operating such pipelines and any other pipelines and associated ancillary facilities; and to market, process, treat, deal in petroleum products and other products and goods and

provide transport and other distributive facilities, outlets and services in connection therewith.

The company has eleven departments namely, Engineering, Operations, Business Development, Corporate Planning, Finance, Human Resources, Internal Audit, Information Communication Technology, legal (secretariat), Administration and Procurement which are headed by different Managers. The success of the Mombasa – Nairobi pipeline system, coupled with the need to enhance supply of petroleum products to Western Kenya and the neighbouring countries, KPC constructed the Western Kenya Pipeline Extension (WKPE) which runs from Nairobi to Nakuru, Eldoret and Kisumu. KPC safely and efficiently transport Motor Spirit Premium (MSP), Motor Spirit Regular (MSR), Automotive Gas Oil (AGO), Jet A-1 and Illuminating Kerosene (IK). The Company plays a critical role in fostering development and growth in the region by ensuring sufficient and reliable supply of petroleum products.

## **1.2 Research Problem**

Response strategies are the various measures that an organization employs in wake of threats in the environment it exists. Organizations have to adequately and promptly respond to these challenges in the environment for them to be successful. Ansoff (1999) brought out the need of organizations to match their strategies to the level of competitiveness in the operating environment. Organizations exist in complex and volatile commercial, economic, political, technological, cultural and social environments. The environmental changes occasioned by these factors are more complex for some organizations than others due to differences in economies of scale. For survival, an

organization must maintain a strategic fit within the environment. The environment is indispensable and an organization has to respond to its dynamism, heterogeneity, instability and uncertainty (De Carolis, 2003).

Kenya Pipeline Company Limited has been faced with various challenges. First, the company has been faced with tragic accidents following the oil spillages that claimed a lot of lives in Sinai estate of Industrial area. Secondly, the company has been experiencing several other accidents such as piercing of the pipeline and siphoning of oil around its pipeline coverage either accidentally during road construction and repairs or intentionally by malicious people whose intention is to steal. In addition, the Company has been faced with increased competition from road transport and reduced market share from other countries like Sudan and Uganda following the discovery of oil in Uganda and peace in Sudan. The Company also operates a shared network/facility where different oil products share the same pipeline thereby causing shortage of certain products should there be an oversupply of a product in the pipeline. All these conditions have changed the operating environment of the Company forcing it to adopt several strategies so as to overcome these challenges and ensure optimum operation where there are sufficient products at any one given time in a given depot. In order to achieve this, the Company has to adopt some responsive strategies that will limit the effects of such challenges.



Numerous studies have been carried out in the area of response strategies to environmental challenges that face organizations. Some include; Gathoga (2001) focused on competitive strategies by commercial banks in Kenya. The study revealed that banks in Kenya use various means in order to remain competitive; he also concluded that expansion into other areas by opening new branches has also been used as a strategy. Kiptugen (2003) did a study on strategic responses by firms facing changed environmental conditions and established that KCB responded to its changing environment through restructuring, marketing, culture change and embracing information technology.

Kamanda (2006) did a study on Kenya Commercial Bank (KCB) with the objective of determining the factors that influence its regional growth strategy. His study however, does not cover the issues of strategy implementation. Swaleh (2007) studied competitive strategies adopted by petroleum retail stations in Kenya using a case of Mombasa City and he concluded that they used reactive strategies but he did not mention anything on oil distribution. Mwarania (2008) conducted a study on strategic responses to changes in the external environment the case of Kenya Re Corporation and found that they mainly used focus strategies while Gichumbi (2008) did a study on strategic responses by NSSF to changing environmental conditions in Kenya and found that they mainly employed reactive and decisive strategies. It is in this light that the study sought to fill the existing gap in this area of oil distribution in Kenya because there was no study which has been carried out in this area by answering the following questions, what are the challenges faced by KPC in oil distribution in Kenya?, and what response strategies are adopted by

Kenya Pipeline Company limited to cope with the challenges of oil distribution in Kenya?

### **1.3 Research Objectives**

The research objectives of this study included:

- i. To determine the challenges faced by KPC in oil distribution in Kenya.
- ii. To establish the response strategies adopted by KPC to cope with the challenges of oil distribution in Kenya.

### **1.4 Value of the Study**

This study would contribute to the theory on strategic responses. In particular, the study would be useful to researchers and academia in the field of strategic management and oil distribution in Kenya, as it would be a source of reference in forming their future research topics and studies since knowledge is power. They would be able to identify the changes that have taken place in the oil distribution industry in Kenya over the last one decade, explore whether or not KPC has acted in accordance with the environmental dependence concept; and contribute to the strategic management studies through literature review and also identify where further research could be done on the subject matter.

The study will further contribute to the practice of strategic management and in particular demonstrate the ability of state corporations to adapt to changes in the operating environment, and bridge the knowledge gap. It will therefore provide a framework upon which more efficient response strategies can be built.

This study would be of importance to members of management of KPC in enabling them to understand the dynamics of managing oil distribution in the Country in turbulent environments. Through the findings of the study, management would equip themselves with the relevant skills and knowledge necessary to ensure efficient oil distribution in Kenya. This would enable them to formulate appropriate strategies to deal effectively with challenges arising from their constantly evolving environment.

The study would also benefit policy makers in Government as such an insight would lead to the formulation of policies that create an enabling environment for proper distribution of oil products in Kenya. The study will also help in the general management and planning in the oil industry. This will also enable the government to deal with oil cartels in the country through various policies and strategies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are concept of strategy, organizations and environment, environmental challenges and response strategies.

#### **2.2 Concept of Strategy**

Ansoff and McDonnell (1990) noted that strategic responses to changes in the operating environment involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (2005) define strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. A strategy is therefore a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

According to Pearce and Robinson (2005), there is need to adopt new strategies that match the challenges from the environment. Some of the dominant strategies used for restructuring organizations in the 1990's include: re-engineering, downsizing, self-management and outsourcing. Ansoff and McDonnell (1990) asserts that the management

system used by a firm is a determining component of the firm's responsiveness to environmental changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Thompson, 2007).

### **2.3 Organizations and Environment**

An organization's environment is composed of both the external and internal environments. According to Pearce and Robinson (2005), an organization's external environment refers to all those factors beyond the control of the firm that influence its choice of direction, action, organizational structure and internal processes. Organizations exist in a complex commercial, economic, legal, demographic, technological, political, cultural and social environment. This environment is not static but is under constant change which affects the organizations that operates within it. These environmental changes are more complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment (Porter, 1998). The environment is important and an organization has to respond to its dynamism, heterogeneity, instability and uncertainty for it to survive and meet its objectives (Thompson, 2007). In addition, the competitive environment has been and continues to be driven by technological innovation, globalization, competition and extreme emphasis on price, quality and customer satisfaction as the driving forces. As a result organizations must continuously create and innovate in order to stay relevant and be successful.

Business firms are in a constant two way interaction with the environment because they receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services (Ansoff and McDonnell, 1990). The connection of the external environment and the organization is that of input – throughout – output process where inputs are received from the environment and released back into the same environment after being processed by the

organization. These environmental changes are more complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment (Pearce and Robinson, 2005). What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1985).

Pearce and Robinson (2005) urge that the direction and stability of political factors are major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on firm's fair trade decisions antitrust laws, tax programmes, minimum wage legislation, pollution and pricing policies and administrative regulations. Some are meant to protect the firm and they include patents laws and government subsidies.

#### **2.4 Challenges of Oil Distribution**

With increased pressure on the oil industry, oil transportation companies constantly look for ways to improve their overall performance in terms of efficiency and effectiveness in the transportation business so as to add to their bottom line. The successful implementation of quality control for kerosene, gasoline and diesel products has been instrumental to improvements in these areas (Balasubramanian, 2010). To enable oil transportation companies to deliver fuel oil to exacting specifications, quality control is the next item on the agenda that needs full development and implementation. Fuel-oil end users are offered products with variable qualities. Ideally, they would like to manage and balance engine or furnace combustion performance with fuel prices. Unfortunately,

current specifications are not sufficiently transparent to allow this approach, leaving customers to focus only on price.

The important functions within the distribution segment are demand forecasting, optimization across alternative means of transportation, replenishment methods to avoid retains/run outs and finally scheduling, which sequences the dispatch. Let us look at these functions in a little more detail (Balasubramanian, 2010).

Under demand forecasting, the demand number for each product for the forward month is one of the key inputs, which is essential for the transport company for liquid petroleum to perform the optimization studies. This input actually determines the rate at which the transportation company operates for the next month. The demand numbers are generally taken based on following inputs; historical data for the similar period; forward trades data, based on deals done or committed in the forward months; Point of sale systems which give the latest updates; macroeconomic indicators reflecting the economy; marketing inputs based on marketing plans to introduce new schemes in a month for attracting customers; meteorological department's inputs, as the gasoline and heating oil requirements are very weather sensitive even though all these inputs are considered, an element of subjectivity comes in while giving weight ages for each of these factors (Balasubramanian, 2010). The weights can vary with time or with individuals, leading to different predicted numbers.

Most oil companies use some sort of software application developed by their own teams to address the areas of demand forecasting, supply and distribution planning, replenishing planning and scheduling. What is lacking is the benefit of an integrated system that can



look across the value chain. The proprietary software can deliver in 90% of the cases but is not good enough in this fiercely competitive segment.

All organizations have at least four types of resources namely: financial, physical, human resources and technological resources (Thompson, 1990). David (2003) asserts that organizations have at least four types of resources that can be used to achieve desired objectives, namely financial, physical, human and technological. The various activities necessary to implement any particular strategy should be defined in terms of each type of resource required.

As companies change and as skills expertise become recognized as a major asset of the firm, the heightened efforts in cultivating and enhancing them becomes significant part of development strategy (Saunders, 1994). During the process of strategy implementation, how relationships and beyond the organization are fostered and maintained will influence performance further while organizations and groups may be assumed as taking strategic actions, it is individuals who ultimately, in practical terms take action and are responsible for driving an organization or a group towards objective. Perhaps the most important resource of an organization is its people (Johnson and Scholes, 2003). Furthermore, organization is a social system relationship (formal and informal) among the people who individually and jointly subscribe to same goal(s) and to which they direct their actions. Where the needs of the individual and the demands of an organization are incompatible transactions and conflict are bound to occur and strategy implementation cannot be achieved.

According to Robins and Coulter (2002), organization structure influences the type of strategy used by an organization. Inappropriate systems utilized during the process of operationalization, institutionalization and control of the strategy are often sources of challenges during strategy implementation. The process of institutionalization relies heavily on the organization configuration that consists of the structures, processes, relationships and boundaries through which the organization operates (Johnson and Scholes, 2003).

The relationships consist of interactions, influence, communication and power dynamics, among other elements that occur in a systematic or a structured manner. Whilst the strategy should be chosen in a way that it fits the organization structure, the process of matching structure to strategy is complex (Byars *et al.*, 1996). The choice of a particular structure is a formidable challenge. For example, the strategic challenge in the functional structure is effective coordination of the separate functional units. Some form of divisional structure is therefore necessary to meet the coordination and decision-making requirements resulting from increased diversity and size.

The structure of the organization should be consistent with the strategy to be implemented in response to the changes in the operating environment. Moreover the nature of the organizations structure to be used in implementing strategic response is influenced by the environment stability and the interdependence of the different units (Daft, 2000). Failure to address issues of the broad structural design of roles, responsibilities and lines of reporting can at a minimum, constrain strategies development and performance (Johnson & Scholes, 2002; Koske, 2003). Disorder, friction,

malfunctions or reduced performance results when managers use the wrong structure for the environment (Reuter, 1991).

## **2.5 Response strategies**

Fundamental forces of change have been experienced in the global business environment resulting in unprecedented competition. Organizations responding to these changes have realized their existing strategies and configurations may no longer serve them (Ansoff and McDonnell, 1990). Ansoff and McDonnell (1990) see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises. Hamamel and Prahalad (1990), perceived an organization as a foundation for sustained competitive advantage when it poses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate new values creating capabilities based on that knowledge. And unless there is an advantage over competitors that is not easily duplicated or connected, long term profitability is likely to be elusive.

Pearce and Robinson (2005) reported that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environmental changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization. At a general strategic level Ansoff and McDonnell (1990), suggests three reasons why firms diversify. The objectives can not be achieved by continuing to operate in their existing market.

The most frequent reason for diversification in the part of individual business is the achievement of growth and risk reduction. With regards to growth, any firm that attempts to expand within an industry immediately faces two limitations: The rate of growth of the

market itself and reactions of its market competitors. Any business seeking to achieve a growth rate about the aggregate rate of expansion of the market which it is currently confined is implicitly or explicitly envisaging an increase in its market share.

Hill and Jones (2001), argue that focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger. It differs from corporate strategy in that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002) "Business unit strategy is about how to compete successfully in particular markets".

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

Further, organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviours to assure success in transforming future environment. Pearce and Robinson (2005) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Porter (1998) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy. Porter (1998) states that the goals of a competitive strategy for a business went in an industry is to find a position in the industry where the company can best defend itself against the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. These five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy. He identified three potentially successful generic strategy approaches to outperforming other firms in an industry.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This chapter discussed the methods that were used in the collection and analysis of data and how presentation was done. It also discussed how the objectives of the study were met. It specifically covered issues to do with research design, data collection and data analysis.

#### **3.2 Research Design**

This study adopted a case study design meant to investigate the response strategies adopted by Kenya Pipeline Company limited to the challenges of oil distribution in Kenya. Kothari (2000) define a case study as a description of a situation involving problems to be solved. A case study is also an in-depth investigation of an individual, group, institution or phenomenon (Mugenda & Mugenda, 2003).

According to Mugenda and Mugenda (2003), a case study design should be considered when: the focus of the study is to answer “how” and “why” questions; you cannot manipulate the behavior of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and context.

### **3.3 Data Collection**

In this study, emphasis was on primary data. The primary data was collected on the response strategies adopted by Kenya Pipeline Company limited to the challenges of oil distribution in Kenya. The primary data was collected using interview guides. Interview guide was chosen for it allows for flexibility in the direction of question hence comprehensive data collection is ensured and the interviewer can direct the interviewees in case of difficulty in answering a question. The interview guides were structured into three sections namely Section A, Section B and Section C; Section A sought to establish general information, Section B was on the challenges faced by KPC in responding to the changes in the environment, while Section C dealt with the response strategies by KPC to the challenges.

The interview was administered through personal interviews with the sampled interviewees after the researcher booked appointments with the three senior managers namely chief manager finance and strategy, chief manager human resource and administration and chief manager technical at Kenya Pipeline Company limited. The reason for choosing the interviewees was because they were highly involved in crafting the company's strategic plan and therefore had a wide knowledge of the challenges and the response strategies adopted by KPC in oil distribution in Kenya.



### **3.4 Data Analysis**

The data obtained from the interview guide was analyzed using content analysis. Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2004) explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness.

The researcher analyzed the information provided by the respondents against known strategic management concepts and implementation models to describe and determine the response strategies adopted by Kenya Pipeline Company limited to the challenges of oil distribution in Kenya. Content analysis also enabled the researcher to identify, interpret and make a scholarly judgment on the response strategies adopted by Kenya Pipeline Company limited to the challenges of oil distribution in Kenya.

## **CHAPTER FOUR**

### **DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the response strategies adopted by Kenya Pipeline Company limited to the challenges of oil distribution in Kenya. The study targeted a total of three senior managers at KPC. The chapter specifically covers general information of the study, challenges of oil distribution, response strategies to the challenges and discussions.

#### **4.2 General Information**

All the targeted interviews responded by scheduling and attending the interview thus giving a response rate of 100%. This excellent response rate was attained because of the researcher's aggressiveness in booking and attending the interviews in person. This response rate was excellent and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

The study sought to establish the period that the interviewees had worked with Kenya Pipeline Company. From the interviewees' responses, the interviewees had worked with KPC for between three years and five years this shows that the interviewees were well versed with the challenges facing the Corporation in the oil distribution in Kenya. This again qualifies and substantiates their responses as they are based on a longer period of observation. In addition, the managers were involved in the strategy formulation and

implementation in dealing with the challenges to ensure stable distribution of oil and petroleum products in Kenya.

The interviewees were asked to indicate the departments which they had worked in the Company. From the interview results, the interviewees had worked in various departments as managers during their employment period with the Corporation. Some had worked in Finance and strategy, human resource and administration, corporate planning, engineering and technical departments. From this experience, it is evident that the study was all inclusive as the interviewees had experience from the whole organization at large. This therefore enables the generalization of the findings of the study to the whole population and organization.

The study sought to establish the involvement of the interviewees in the strategic planning process in the Company. From the results, the interviewees indicated that they were involved in strategy formulation and implementation at KPC in various capacities. In addition, the interviewees played different roles in the strategy formulation and implementation. Some of the interviewees served as committee members to the strategy formulation team and as coordinators. This gave the interviewees a chance to scan the operating environment for KPC which identified the challenges that the Corporation faced in its oil distribution in Kenya. In addition, the interviewees were accorded a chance to participate in the strategy formulation and implementation especially in an effort to building the capacity required to overcome the environmental challenges.

The researcher sought to establish whether the interviewees set goals, objectives and milestones for their departments and the entire organization at large. From the interviews,

the interviewees indicated that they set goals, objectives and milestones for their departments and the organisation at large. The goals and objectives set by the interviewees ranged from short term to long term with the aim of directing the operations of the Corporation in effective and efficient oil distribution in Kenya. Some of these goals and objectives included timely collection of data, timely and accurate review of transport tariffs, Pipe integrity, pipe maintenance, and operational efficiency to enhance throughput hence increased revenue and ensuring timely implementation of the strategic plan which is organization wide.

The study sought to establish whether the interviewees had response strategies for their departments. From the interview results, the interviewees indicated that they had strategies for their departments' to achieve the goals. Some of these included: coming up with tariff policy especially considering there the Corporation did not have any such policy in the past, ensuring statistics collaborate with all departments and external data to promote teamwork and cohesion in the Corporation for efficient service delivery, prevention and risk management response strategies, business improvement and business continuity response strategies; and implementation models to impart reviews on quarterly basis. The interviewees also indicated that the Corporation dealt with the oil distribution challenges by Conversion of some tanks to MSP because of its high demand.

The researcher sought to establish the implementation strategies developed by the interviewees to ensure that successful strategies were developed. From the interviewees' responses implementation of strategies developed in the Corporation was done from monitoring, evaluation and feedback mechanisms in the distribution of oil. There existed

a separate department entrusted with the monitoring and evaluation of the oil distribution. The department assessed the performance of the Corporation against laid down goals and objectives to ensure efficient and timely distribution of oil in Kenya. The department has done this in the past by conducting customer satisfaction surveys which provides the satisfaction index. To measure the effects of the various intervention programmes by management on the improvement of service delivery, the indices are compared.

The interviewees were asked whether strategies developed were tied to the overall corporate strategy. From the interview results, the interviewees indicated that the strategies developed were tied to the overall corporate strategy. For profitability of the Corporation, strategies were developed in accordance with the overall organizational strategy. The departmental strategies were formulated in order to break down the corporate strategy into small executable tasks that are important in the attainment of the goals and objectives of efficient oil distribution within Kenya.

The interviewees were asked as to whether the departments had a response strategy for their respective departments. From the interviewees' responses, the departments had a response strategy for their respective departments but all were tied up to enhance efficient and effective distribution which is the corporate strategy. These ranged from risk management response strategy which guided the departments on ways of identifying risk, mitigating and control. The departments are also required to effectively manage risk and reduce the overall exposure of the Corporation. Business improvement response strategy is geared towards building the corporation capacity to deal with the challenges in the operating environment to ensure efficient oil distribution in Kenya. Business continuity

response strategy is developed to ensure that the business of the Corporation do not come to a halt. Any instances that are likely to hinder the business continuity of the Corporation are identified and micro managed to ensure that they do not occur. Disaster management response strategy which ensures that in case of a disaster occurring, the operations of the Corporation are not brought to a standstill. To ensure business continuity, the Corporation has established a business continuity plan which has seen the establishment of a site outside the office premises. The location is fully equipped and tested from time to time to ensure that in case of an eventuality happening, the key operations of the Corporation will continue. Prevention response strategy is geared towards preventing disasters before they happen. These include the health and safety programmes which ensure that the work environment in the organization is safe and healthy to ensure high employee productivity.

The interviewees were asked to indicate as to whether there were targets for every manager in oil distribution strategy to ensure efficient distribution of oil in Kenya. From the interviewees' responses, the interviewees indicated that there were targets for every manager in oil distribution strategy to ensure efficient distribution of oil in Kenya. This has been achieved through performance contracts where every employee of the Corporation signs the performance contract containing the key tasks and deliverables. This ensures that each employee clearly knows what is expected of them hence promoting employee productivity. The Corporation also ensures that managers deliver through strategic planning and reviews which monitor the implementation progress and monitors the key milestones. It also measures this against the Vision 2030 projects like liquid petroleum Gas (LPG) production which is in progress and thereby informing the

preparation of a tariff policy on how to charge the customers for the transport and storage of the oil products for efficient oil distribution in Kenya.

#### **4.3 Challenges of Oil Distribution**

The interviewees were asked to indicate the challenges faced by KPC in the distribution of oil in Kenya. From the interview results, the Corporation faced several challenges in its endeavor to efficiently and timely distribute oil and other petroleum products throughout Kenya. On whether the challenges were internal or external, the interviewees indicated that the challenges were both external and internal. The internal factors ranged from core values (integrity, accountability among others), organisational culture, and organisational structure, Employees, Aesthetics, and Resources among others. First, the Corporation faced Capacity constraints with the Sinedet line to Kisumu being smaller hence not able to transmit enough oil products as per the customer requirements. This limited the Corporation's ability to deliver the products as and when required to minimize shortages of certain oil products in the region which is a highly export depot.

The interviewees went further to give another challenge which included the third party clearance which affects the rate at which the Corporation delivers the oil to a given destination. For any oil to be delivered through the pipeline, Kenya revenue Authority has to clear the product before it is transported to a given destination. At times, the KRA officials are slow to respond thus causing delays and slow down in the operations of the Corporation. Oil marketers do not have enough storage capacity at their depots hence evacuation of the oil is slow and therefore there is no ullage for more oil at KPC depots. As a result of this, they delay collecting their products leading to congestion at the KPC

depots. This in turn means that the Corporation cannot pump more products at certain times thereby leading to shortages of some products in some areas and forcing KPC to go offline.

Another challenge facing KPC in the oil distribution includes the insufficient pumping capacity. This is due to breakdowns especially the pumps because of equipment breakdowns, frequent power interruptions, Telemetry (control systems) failure and pump seal problems. The interviewer asked about how the insufficient pumping capacity affected oil distribution in Kenya and from the interview results, the interviewees said during such times, the pumping stops as the Corporation seeks to have the situation rectified. The down time of the pipeline has been experienced though not frequent thus leading to normal losses and inconveniences to the Company.

Another challenge according to the interviewees included limited Storage capacity in Nairobi especially when there is tank maintenance. Routine practices like cleaning of a tank, painting or repairs and these forces KPC to go offline because of lack of ullage (storage space). This mostly affects the station at Jomo Kenyatta international Airport which stores Jet A-1 fuel. All the tanks in KPC takes a maximum of ten years before cleaning except for Jet fuel tanks which take a maximum of three and five years to be painted and cleaned respectively.

The interviewer sought to establish whether Change in technology is a challenge affecting oil distribution in Kenya and from the interview results; change in technology has made some equipment at the Corporation obsolete especially for the line running from Mombasa to Nairobi which was constructed in 1978. This has reduced the efficiency and



effectiveness in the oil distribution thus leading to huge losses to the corporation. In addition, frequent damages to the pipeline by third parties during road construction or by malicious people who want to steal petroleum products have been a major interruption to the operations of the Corporation. These operations have increased the risk exposure of the Corporation and the operational costs as the Corporation engages more staff to keep surveillance of the pipeline and high daily security patrols.

The interviewees said that transfer pumps to the oil marketers' depots are below capacity hence demand is higher than what the pumps can accommodate at any particular time. This slows down the process of pumping oil to them hence slowing down the distribution of the petroleum products. This is partly caused by the lagged clearance of loaded trucks by Kenya Revenue Authority especially in western Kenya where this has been a big challenge. This also applies for exports where loaded trucks take a lot of time to be cleared by KRA. The Corporation is also faced with the challenge of insufficient loading bays especially in western Kenya hence congestion of trucks at the KPC depots.

The interviewer sought to establish whether cost of laying a pipeline was a challenge in oil distribution. From the interview results, the interviewees said that due to the high costs of setting up a separate pipeline for each product, there is product line sharing of the pipeline especially to Kisumu because the line is one and small. At times, the depot is overstocked with one product but experiencing a shortage of the other product sharing the pipeline. As a result, the other product cannot be able to be pumped because the supply of one product still awaits collection at the depot hence not cleared from the pipeline to

allow the transmission of the other product. This increases the risk of under or overstock of a particular product hence affecting oil distribution because of fluctuations in demand.

The interviewer sought to establish other challenges affecting oil distribution and from the interview results, the corporation has also faced the challenge of long and bureaucratic government procurement procedures which causes delay in maintenance due to lack of spares hence distribution delayed. The policies and procedures governing the procurement processes in government parastatals in Kenya are long and cumbersome. It takes time from the identification of a problem to the full resolution of the problem due to cumbersome government procurement procedures. This reduces the pumping ability of the Corporation as it seeks to repair the damaged lines.

According to the interviewees the challenges of oil distribution were numerous others included high pipeline rehabilitation costs, coating and degradation following the ageing pipeline. The line was laid down in 1978 this makes transportation difficult because it has been corroded. Especially Line one from Mombasa to Nairobi has undergone high degradation leading to increased need for inspection and monitoring thus raising the operational costs of the Corporation. This has increased its operational costs in terms of maintenance.

The interviewer sought to know whether quality was a challenge in oil distribution and the interviewees said no because the Company had put in place policies that ensured that high quality was maintained in all departments, because quality is a critical factor to the success of distribution of different petroleum products through multi-product pipelines. KPC is an active member of the petroleum Industry Standards Committee (ISC)

charged with responsibility of setting and reviewing the national standards through the Kenya Bureau of Standards (KEBS).KPC was awarded the ISO 9001-2000 QMS certificate on 4<sup>th</sup> July 2007. The process involves documentation of procedures, processes, and maintaining of records. All systems are audited periodically to ensure conformity with the standard.

#### **4.4 Strategies for Coping with the Challenges of Oil Distribution**

The interviewees were asked to indicate the response strategies KPC use to cope with the challenges of distribution of oil in Kenya. From the interview results, the Corporation put in place several response strategies in its endeavor to efficiently and timely distribute oil and other petroleum products throughout Kenya. In order to cope with challenges in oil distribution in Kenya, KPC devised several strategies. First, the Corporation reviewed the petroleum supply chain infrastructure and systems and investment in the sector to guarantee reliable, efficient and cost effective supply chain that meets the rising demand and enhance distribution. This was done in collaboration with the Ministry of Energy in consultation with other stakeholders. This streamlined the oil distribution process and helped in the elimination of bottlenecks encountered in oil distribution.

The interviewer sought to establish the response strategies KPC used to deal with the challenge of storage capacity. From the interview results, the interviewees said in order to reduce the effects of storage capacity at the KPC's depots, the Corporation commissioned the construction of storage facilities especially at Jomo Kenyatta international airport now that there is a plan to expand the airport. KPC has also converted some tanks in western Kenya and kipevu oil terminal to MSP which has a very high demand. This has

enabled the Corporation to collect more revenue as it charges the oil marketers some fees for products for storage which enhances oil distribution in the country. KPC also charges more to oil marketers who do not pick their products on time. This has reduced the operational costs of the Corporation besides instilling more discipline among the oil marketers to ordering only what is needed within a given timeframe.

The interviewees said that the Corporation in conjunction with the Ministry of Energy has developed guidelines which impose stiff penalties on oil marketers whose oil products overstay in the pipeline system and installation of flow meters to enhance product flow and distribution. These penalties have played a key role in encouraging oil marketers to collect their products on time thus maintaining pumping capacity within the various depots. These stiff penalties have helped in quick evacuation of products at Nairobi terminal because it has created ullage. They also said that KPC has planned to construct oil storage facilities countrywide to enhance efficient and effective distribution of oil Kenya.

To ensure stable oil product supply and stable oil prices, the interviewees said that KPC has entered into negotiations with the National Oil of Kenya to hold discussions on construction of strategic reserve depots. The reserve depots will ensure that oil is available at any one given time to sustain the operations in the Country for a specified period of time to allow the government time to re-organize the procurement and refining of more oil. Strategic reserves are important in ensuring that in case of an emergency in the refining and distribution of oil, the services in the country are not affected. KPC will therefore transport, and distribute the oil from the reserves to their depots for distribution.

The interviewer sought to establish what response strategies KPC has done to ensure quick and timely release of products from KPC depots. From the interview results, the interviewees said that KPC has initiated talks with the Kenya revenue Authority to fasten their clearance procedures to decongest the depots and enhance effective and efficient oil distribution. This has seen an increase in the clearance rate thus leading to more capacity at the KPC depots for continued oil pumping. KPC also holds stakeholders meeting to enhance communication and agree on evacuation of oil to make sure that its distribution is effective and that over or under stockings is avoided as much as possible.

The interviewer sought to establish whether there were other response strategies adopted by KPC to cope with the challenges of oil distribution in Kenya. From the interview results, the interviewees said that KPC is also planning to lay line five which will run from Mombasa to Nairobi to increase the flow rate and enhance distribution since the current line is old and corroded which affects oil transportation and distribution. With increased flow rate, there will be enough oil for collection at the Nairobi depot thus reduce the operational costs in maintenance of the old corroded pipe and reduce competition from road transport of petroleum products from Mombasa to Nairobi which leads to high damages to Kenyan roads. The interviewees also said that KPC has put additional new larger capacity pumps to enhance flow rate in Mombasa – Nairobi line. KPC has also been training its staff on issues to do with the ever changing technology to ensure efficient and effective distribution of oil since knowledge is power. KPC has constructed an additional oil jetty with ability to handle supertankers and also dredging of the kilindini channel to improve draft. Another response strategy it has used is sensitizing communities along the right of way so that they can keep surveillance on the pipeline.

#### **4.5 Discussions of Findings**

This study had two research objectives: determining the challenges faced by KPC in oil distribution in Kenya and establishing the response strategies adopted by KPC to cope with the challenges of oil distribution in Kenya. As Thompson (2007) notes, the environment is important and an organization has to respond to its dynamism, heterogeneity, instability and uncertainty for it to survive and meet its objectives. Kenya pipeline Company has not been spared either. The competitive environment has been and continues to be driven by technological innovation, globalization, competition and extreme emphasis on price, quality and customer satisfaction as the driving forces. As a result organizations must continuously create and innovate in order to stay relevant and be successful. The findings of this study are consistent with Thompson (2007) since Kenya Pipeline Company realized the changes that were occurring in its operating environment and in order to keep pace with these, changes, the Corporation instituted some changes to align the organization to the changing operational environment.

The interviewees who participated in the study had worked with KPC for between three years and five years indicating that they were well versed with the challenges facing the Corporation in the oil distribution in Kenya. This means that the information provided by the interviewees is based on their long service to the organization. From the findings, the interviewees indicated that they were involved in strategy formulation and implementation at KPC in various capacities. In addition, the interviewees played different roles in the strategy formulation and implementation. The interviewees indicated that they set goals, objectives and milestones for their departments and the

organisation at large. The interviewees indicated that they had strategies for their departments' to achieve the goals. These findings are in line with the findings of Pearce and Robinson (2005) who define strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. KPC has cultivated the spirit of developing response strategies to enable it keep pace of the changing operational environment.

As Ansoff and McDonnell (1990) postulate, organizations responding to the changes in their operating environment have realized their existing strategies and configurations may no longer serve them especially if they still have to meet the organization's strategic objectives. In the same way, KPC observed the changes happening in its operating environment and their objectives and discovered that it was necessary to develop key strategies that would propel the Corporation to its desired future position of ensuring efficient oil product distribution in Kenya. These findings are in agreement with Ansoff and McDonnell (1990) who see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises.

Operational responses are an important part of a planning process that coordinates operational goals with those of the larger organization in order to bring harmony and teamwork in an organization. Operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy (Porter, 1998). This is consistent with the study findings where KPC had to develop operational responses to help in operationalizing the broad

organizational objectives at the department and section levels. By operationalizing the organizational objectives, the Corporation helped create a sense of ownership among employees hence promoted strategy execution.

To ensure successful implementation of strategies developed, the Corporation had monitoring, evaluation and feedback mechanisms in the distribution of oil. For profitability of the Corporation, strategies were developed in accordance with the overall organizational strategy. The departmental strategies were formulated in order to break down the corporate strategy into small executable tasks that are important in the attainment of the goals and objectives of efficient oil distribution within Kenya.

The Corporation faced serious challenges following serious demand over estimation by oil marketers. Most oil companies use some sort of software application developed by their own teams to address the areas of demand forecasting, supply and distribution planning, replenishing planning and scheduling (Balasubramanian, 2010). This was also experienced at Kenya Pipeline Company limited. The Corporation experienced serious storage problems.

To help cope with the challenges of oil distribution in Kenya, KPC ensured quick and timely release of products from KPC depots. This was facilitated through initiating talks with the Kenya revenue Authority to fasten their clearance procedures to decongest the depots and enhance effective and efficient oil distribution. This saw an increase in the clearance rate thus leading to more capacity at the KPC depots for continued oil pumping.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of key data from findings, conclusions drawn from the findings highlighted and the recommendations that i made. The conclusions and recommendations drawn were in quest of addressing research objectives of establishing the challenges of oil distribution in Kenya and the response strategies adopted by Kenya Pipeline Company Limited to cope with the challenges.

#### **5.2 Summary of the Findings**

From the study findings, the study established that the interviewees had worked with KPC for between three and five years which show their better understanding of the challenges facing the Corporation in the oil distribution in Kenya. The interviewees had worked in various departments as managers during their employment period with the Corporation. Some had worked in Finance and strategy, corporate planning, engineering, human resource and administration and technical departments. With this wide exposure in the organization, they clearly understood the various aspects about the corporation and could thus provide the information required for this study. The study also established that interviewees were involved in strategy formulation and implementation at KPC in various capacities. Some as committee heads while others as members. To be able to achieve the Corporation goals, the managers at the Corporation set goals, objectives and milestones for their departments and the organisation at large. In addition, there were strategies for departments to achieve the goals. To ensure successful implementation of

strategies developed, the Corporation had monitoring, evaluation and feedback department in the distribution of oil.

The study also established that the strategies developed were tied to the overall corporate strategy because the corporate strategy was operationalised through sub strategies at the departmental levels. To ensure profitability of the Corporation, strategies were developed in accordance with the overall organizational strategy. Each department had a response strategy for their respective departments but all were tied up to enhance efficient and effective distribution of oil which is the corporate strategy. To ensure business continuity, the Corporation had established a business continuity plan which saw the establishment of a site outside the office premises. The department was headed by business development manager. The location was fully equipped and tested from time to time to ensure that in case of an eventuality happening, the key operations of the Corporation will continue normally.

The study established that the Corporation faced several challenges in its endeavor to efficiently and timely distribute oil and other petroleum products throughout Kenya. The challenges were both internal and external. The challenges included: Capacity constraints with the Sinedet line to Kisumu being smaller hence not able to transmit enough oil products as per the customer requirements. Long processes of clearing the products by other stakeholders at the deports leading to delays in oil marketers collecting their products; change in technology which made some equipment at the Corporation obsolete especially for the line running from Mombasa to Nairobi which was constructed in 1978; long and bureaucratic government procurement procedures which caused delay in

maintenance due to lack of spares hence distribution delayed; and the high pipeline rehabilitation costs, coating and degradation following the ageing pipeline.

In order to cope with the challenges in distribution of oil in Kenya, the study established that KPC devised several strategies including: reviewing the petroleum supply chain infrastructure, systems and investment in the sector to guarantee reliable, efficient and cost effective supply chain that meets the rising demand and enhance distribution. In order to reduce the effects of storage capacity at the KPC's depots, the Corporation commissioned the construction of more storage facilities. The Corporation in conjunction with the Ministry of Energy developed guidelines which impose stiff penalties on oil marketers whose oil products overstay in the pipeline system and installation of flow meters to enhance product flow and distribution.

### **5.3 Conclusions of the Study**

From the findings, the study concludes that KPC faced several challenges in its quest to ensure stable and efficient transportation of oil products in Kenya. These ranged from inadequate policies governing the relationship between the corporation and the oil marketers who constitute the customers of the corporation, inadequate capacity at the depots around the country, low and at times no penalties to customers for delayed product collection and long procurement procedures in the government which hampered the repairs and maintenance of the pipelines. The challenges also included changes in technology and economic conditions in which the Corporation operated. All these challenges required that the Corporation develops strategies to reduce the effects of these challenges on its service delivery and attainment of their goals.

The study also concludes that in order to stay in pace with the changes in the operating environment, the Corporation also developed some strategies to deal with the challenges. From the study findings and summary, the study concludes that the Corporation reviewed the petroleum supply chain infrastructure, systems and investment in the sector to guarantee reliable, efficient and cost effective supply chain that meets the rising demand and enhance distribution. The Corporation in conjunction with the Ministry of Energy developed guidelines which impose stiff penalties on oil marketers whose oil products overstay in the pipeline system and installation of flow meters to enhance product flow and distribution.

#### **5.4 Limitations of the Study**

Being that this was a case study on one Institution the data gathered might differ from the challenges and response strategies developed by other organizations. In addition, the Institution under study is a monopoly in the distribution of oil products through the pipeline. Different organizations in a different setting develop different strategies to respond to changes in the operating environment. The study however, constructed an effective research instrument that sought to elicit general and specific information on challenges facing organizations and strategies in which organizations can respond to those challenges.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on challenges and response strategies at Kenya Pipeline Company limited. Due to limited time the study could not collect information through observation over a period

of time to assess the performance of the strategies so developed. The study, however, minimized these by conducting the interview at the Institution's headquarter and with managers who had substantive experience about the Corporation since it is where strategies are made and rolled out to other office that operate on the strategic plan.

### **5.5 Suggestions for Further Research**

The study suggests that further research should be done on the effectiveness of response strategies in an ever changing business operational environment. The environment in which businesses operate are very volatile and constantly changing. Some strategies are even rendered obsolete before they are launched. Further study should seek to measure the effectiveness of response strategies in organizations in delivering the organization towards its desired direction and point.

The researcher further suggests that a similar study be done on the private sector institutions for the purposes of benchmarking. Operating environment has become very volatile following the high level of globalization effects on organizational performance. Organizations are forced to invent new ways of dealing with their current problems in order to survive the high competition. The external environment is turbulent and therefore further study should be done to show whether such organizations create a strategic fit between themselves and the environment by formulating relevant strategies and implementing them with regular reviews to deal with the ever changing environment.

## **5.6 Recommendations for Policy and Practice**

The Kenyan public sector especially Kenya pipeline Company limited should use the study to benefit the organization by formulating response strategies to counter the challenges of ever changing operating environment following increased globalization. The operating environment for the organization is ever changing calling for constant management of change so as to ensure the Institute meets its strategic objectives and delivers on its mandate.

The government and policy makers should get insight from the study in formulating policies regarding regulatory requirements to changes in the operating environment. This will help organizations to ensure balanced and stable economic growth. Development of response strategies is important in any organization because it aligns the organization with the changes in the operating environment hence ensuring that the organization consistently achieves its mandate. The government will be able to minimize on damages of roads and accidents by oil tankers which sometimes transport and distribute the oil if proper policies on oil distribution policies are put in place and implemented.

The academicians should use this study as a basis upon which further studies on response strategies to challenges facing organizations could be researched. The findings should contribute to professional extension of existing knowledge in response strategies. The wide area of strategic management will be enhanced by providing literature on response strategies by organizations to changes in their operating environment. Knowledge is power and therefore this study will be of importance to stakeholders such as theory building, policy and practice.

## REFERENCES

- Ansoff, I. and McDonnell, E. (1990). *Implanting Strategic Management*, 2 Edition, Prentice Hall.
- Aosa, E. (1992). *An Empirical Investigation of Aspects of Strategy Formulation and implementation within large and Private manufacturing Companies in Kenya*, (Unpublished PhD Thesis).University of Strathclyde, Scotland
- Balasubramanian, K. (2010). Supply chain management in oil downstream distribution business: a perspective on IT Alternative and issues. Vol. 27 (4), 436-455.
- Burnes, B. (1998). *Managing Change: Strategic Approach to Organizational Dynamics*. Pitman publishing 2nd edition
- Frishammar, J. (2003). Information use in strategic decision making. *Management Decision*, Vol.4, no.4: 318-326.
- Gathoga, W. (2001). *Competitive strategies employed by commercial banks*. Unpublished MBA Thesis, University of Nairobi
- Gichumbi, N. (2008). *Strategic responses by NSSF to changing environmental conditions in Kenya*. Unpublished MBA Thesis, University of Nairobi
- Grant, R. M. (2002). *Contemporary Strategic Analysis*, 4th edition, Balckwell Publishers Inc. Massachusetts.
- Hamel, G., and Prahalad C. K. (1990). Core Competency Concept, *Harvard Business Review*
- Hammond, G. (2003). The Origin of Strategy, *Harvard Business Review* (November–December 1989): 139–143.

- Hill, C.W.L. and Jones, G. R (2001). *Strategic Management Theory, An Integrated Approach*, 5th Edition.
- Johnson, G. and Scholes, K. (2002). *Exploring Corporate Strategy*, Prentice Hall, 6th Edition.
- Kamanda, C. (2006). *Factors influencing the regional growth strategy at KCB*. Unpublished MBA Thesis, University of Nairobi
- Kiptugen, J. (2003). *Strategic responses to a changing competitive environment. The case study of KCB*. Unpublished MBA Thesis, University of Nairobi
- Kothari, C. R. (2000). *Research Methodology: Methods and Techniques*. New Delhi: Wiley.
- Kotler, P. (1997). *Marketing Management*, Harvard Business School Press: London
- Kotler, P. (2000). *Marketing Management*, Millennium Ed., Prentice-Hall International, Englewood Cliffs, NJ.
- Mugenda M. O. and Mugenda A. (2003). *Research Methods: Qualitative and Quantitative Approaches*, African Centre for Technology Studies, Nairobi, Kenya.
- Mwarania, J (2008). *Responses by reinsurance companies in Kenya to changes in the environment. The case of Kenya Reinsurance Corporation*. Unpublished MBA Thesis, University of Nairobi
- Nachmias, C.F and Nachmias, D. (1996). *Research Methods in the Social Science, 5th ed.* London: Arnold Publishing
- Osthuizer, B. Gill C.W. and Gones G.R., (2000). Survival of the Best Fit: *Competition from Low International Economics* 68(1)



- Pearce, J. A. and Robinson, J. B., (2005). *Strategic Management: Formulation, Implementation and Control*, 3<sup>rd</sup> edition, Richard D. Irwin
- Porter, M. (1998). *Competitive Advantage*. New York Press: Free Press
- Sauer, C. and Willcocks, L. (2003). Establishing the business of the future: the role of organizational architecture and information technology. *European Management Journal*, Vol. 21, pp. 497-508.
- Stewart, T. A. and Champion, D. (2007). *Leading Change from the Top Line*, Harvard Business Review
- Swaleh, A. (2007). *competitive strategies adopted by petroleum retail stations in Kenya. Case of Mombasa City*. Unpublished MBA Thesis, University of Nairobi
- Thompson, A. and Strickland A. J. (2002). *Strategic Management: Concepts and Cases*, Irwin, New York.
- Thompson, D. (2007). *Crafting and Executing Strategy: Text and Readings*. 15<sup>h</sup> edition, McGraw Hill Companies, New York
- Woods, A. and Joyce, P. (2003). Owner-Managers and the Practice of Strategic management, *International Small Business Journal*, London 21 Issue 2:

## **APPENDICES**

### **Appendix: Interview Guide**

#### **SECTION A: GENERAL INFORMATION**

1. How long have you been a manager at KPC?
2. Which departments have you served as a manager in KPC?
3. Are you involved in strategic management and planning process? What role do you play?
4. Do you set goals, objectives and milestones for your department and the organisation?
5. Do you have strategies for your department to achieve the goals? Name them.
6. Are these strategies tied to the overall corporate strategy?
7. Do you have response strategies for your department?
8. How do you deal with the challenges of oil distribution strategy as a department?
9. Is there any monitoring, evaluation and feedback mechanisms in the distribution of oil?
10. Are there targets for every manager in oil distribution strategy?

#### **SECTION B: CHALLENGES**

1. What are the challenges faced by KPC in the distribution of oil?
2. Are these challenges internal or external to KPC?
3. Are they political, Economic, Social-cultural, Technological, Ecological or Legal challenges?
4. Are they internal such as core values (integrity, accountability among others), organisational culture, and organisational structure, Employees, Aesthetics, and Resources among others?
5. Does quality affect distribution of oil at KPC?

#### **SECTION C: STRATEGIES**

1. Do you have strategies used in response to the challenges in the external environment?
2. Do you have strategies used in response to the challenges in the internal environment?

3. Is information technology a strategy used by KPC to respond to the challenges in the environment?
4. Has this strategy been effective in the distribution of oil?
5. Why do you consider it effective?
6. Outline the capabilities before and after the strategic responses by KPC in the changing external environment?
7. Has strategic responses by KPC affected its performance?

**THANK YOU!!!**