RESPONSE OF KENOL TO CHANGES IN EXTERNAL ENVIRONMENT

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

NOVEMBER 2006.

DECLARATION

This management Research Project is my original work and has not been submitted for a degree at any university.

Signed.............................

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Date....20/11/2006.................

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

Signed...............................Date....27/11/2006.............

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DEDICATION

To my late father, Juvenalis Ongaga Oyondi.

ACKNOWLEDMENTS

For the able and thorough guidance in the entire study by my Supervisor, Professor Aosa, thank you. My wife Mrs. Hilda Obonsi and daughter Khita Kwamboka, I'm truly grateful for your support.

The Kenol team who were my respondents, thank you for participating in this research. Your cooperation, understanding and patience in the exercise were key in its completion.

My lecturers and students at MBA programme, thank you for rendering an enriching, experience to share and acquire knowledge.

ABSTRACT

The external environment plays a significant role in survival of organizations. Its significance is brought out when organizations are left to playing catch up to the change process taking place in the external environment. The oil industry in Kenya has experienced various changes in their external environment prompting responses from players in the industry with an objective of success in their business. Kenol has not been discriminated from these changes.

This research was a case study whose objectives were to find out if there were changes in Kenol's external environment and how the organization responded to them. The objectives were achieved by collecting primary and secondary data. Primary data was collected from personal interviews with respondents who were the heads of department at Kenol. These are the people responsible for developing and implementing the strategic responses at Kenol. Secondary data was obtained from published and corporate development plans. These were analysed by way of graphs.

The research ascertained that the external environment for Kenol experienced changes in the period of research. They included political, economic, social and technological, de regulation of the market, change in tax laws, need to play more role in community activities and environmental safety and quality driven concerns were noted. The research results indicated that market de-regulation, price controls, introduction of open tender systems (OTS) and tax laws changes were the major political/legal changes in external environment. Economically, the opening up of the East African Community markets, escalation of international fuel prices and changes in consumption patterns majorly affected Kenol. Introduction of various product lines, expansion into the larger East African Markets and introduction of trading desk were a reaction to the changes in the economic environment. On the social front, the increased participation in corporate social responsibility through Mama Ngina Children's home, Kenol employee share ownership scheme and the establishment of Kenol Scholarship fund for the bright but needy students were the major findings. Organization innovations on service stations, adoption of ISO standards and reduction of Sulphur and lead contents in products were put in places to respond to changes in the technological environment.

Kenol's case demonstrates a scenario of responses to external environment so as to deliver success in business. Kenol responded to each of the changes in a unique way. The company was largely playing catch up to the external environment for survival and meeting in business objectives. The fact that Kenol is dependent on the external environment for survival came out across all the changes in external environment. The changes were largely sporadic and unrelated to one another, though a few could follow a specific pattern. The external environment will continue posing various challenges to the existence of Kenol. To some extent the past approach to responding to changes in external environment may not be used to demonstrate the ability of the firm to handle the future changes. This is on the premise that immense resources are required to continuously keep the company abreast with changes and rate of change of the external environment cannot be predicated with a lot of ease. However, it's the objective of the firm to have the least cost but best and prompt approach to responding to changes in its external environment.

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External environment refers to factors outside the organization that influence the way the organization operates (Pearce and Robinson 2005). It is everything that is outside the organization's boundaries that directly impacts on the success of the organization. The external environment provides the opportunities and threats for the organization. Opportunities present an avenue for improving performance for the organization while a threat carries the potential to inhibit the success of the organization. A good understanding of the two forces is desirable if the organization is to remain relevant and competitive to ensure success in business.

All types of organizations are in existence to serve the different needs of the society. It is the process of satisfying the needs in society that organization derives their life. While satisfying the needs of society, they have to ensure that they exist long enough to be able to return sustainable benefits to those who have created them. However, organizations have over time realized that survival is not guaranteed. Organizations have to justify their continued existence in society by their activities (Aosa 1998)

Porter (1985) states that, the concept of external environment is significant in organizations on the understanding that all organizations are open systems. They are open systems because they depend on the external environment for their survival. The input for organizations has to be obtained from the environment while the transformed output has to be fed to the same external environment. The realization that all organizations exist because they have to complete the whole cycle of obtaining inputs from environment and returning to the same environment transformed input makes the external environment very significant in their survival. His conclusion is that no organization can survive if it ignores the external environment. The changes in external environment will drive key changes in the internal environment which have largely to do with process changes. This means that organizations rely on the interaction between themselves and the happenings outside their control to be able to

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Organizations are environment dependent (Ansoff and McDonnell, 1990). They rely in what is happening in the external environment to survive. Any organization that ignores activities that are shaping its external environment risks failure. They note that the activities in the external environment that prompt changes require that organization to adjust its strategy in order to match it. The situation can be best described as that of playing catch up to what is happening in the external environment.

Hitt (1997) classifies the external environment into two; first is the industry environment which is made up of economic, social cultural and demographic. Secondly is the competitor environment, which is made up of the political legal environment, technological and global environment. While the organization can exert considerable influence on the competitor environment, it is difficult to dictate the patterns of the industry environment. It is up to the firm to use the competitor environment to achieve competitive advantage as it has some level of discretion over them and can harness the advantages, which come with them. However, the industry factors are also important because they influence the extent to which the firm will translate it's performance into success, the wider environment represented by the industry will dictate the dominant factors and a firm has to understand and utilise them well to succeed in business. The requirement therefore is to strike a working balance between the industry environment and competitor environment.

Pearce and Robinson (2005) classify the external environment into three.
The first is the remote environment that comprises the economic, social, political, technological and ecological environments. The remote environment are the factors

that originate beyond the firms operating environment. They represent forces, which the firms have least influence over. The patterns presented by the forces are not easy to control and the organization can only perform continuous scanning of the environment to ensure that their business will succeed with the existing conditions.

The second classification of the environment is the industry environment. These are forces that closely determine the success of the firm in a particular industry unlike the remote environment; the firm has some level of proximity to these factors and can be easily understood. The forces are the industry rivalry, bargaining power of customers, bargaining power of suppliers, the substitutes and threat of new entrants. A delicate balance between all the factors is necessary for superior performance.

The third classification is the operating environment, which they argue are the reasons why any firm stays competitive. They are the factors that affect the firm's success in acquiring needed resources. They are competitive position of the firm, customer profiles, nature of suppliers, creditors and the human resource base. When a firm attains a healthy balance between the key factors then it able to conduct its business in a competitive way, which translates to better profits.

Johnson et al (2005) argue that environment is the influence that impacts differently in the operation of the organization. The diverse nature of the influences makes it difficult for organizations to predict the future. The environment in which organizations operate is complex and interconnected in nature. The occurrence of one factor will influence the others. They therefore conclude that organizations have to view the environment in totality so as to make accurate decisions on how to move to the future. Any organization that looks at the factors in isolation runs the risk of failing to take appropriate decisions to avert failure in business. Therefore, understanding the relationships between various factors that constitute the external environment is first in handling it.

They broadly classify the external environment into macro, industry or sector and the competitor and markets. Their classification is based on the impact a particular category of factors has in the organization. The macro environment embraces the broader factors that include political, legal, environment, sociological and technological. In terms of impact, they exert the most in the operation of organizations. Industry factors are those, which impact on a group of firms that produce similar products that they compete for the same market. Competitors and Markets recognise the different bases on which various organizations in the same industry compete i.e. the strategic groups.

1.1.2 The Kenya Oil Industry.

The Kenyan oil industry can be analysed into two categories; prior to deregulation and after regulation. This criteria significantly captures the key differences in the operation environment in the industry. Kimuyu et al (2002) argue that before deregulation in 1994, the industry was dominated by pervasive government participation. The government monopolised virtually all aspects of supply, storage and transportation, while marketing was done by the private sector through seven marketing companies. National Oil Company of Kenya (NOCK) was mandatorily required to furnish 30% of the country's crude oil requirements. Refining of crude oil in Kenya was done primarily through The Kenya Petroleum Refineries Limited (KPRL) which the government owned partially. The government controlled oil product prices through the general price control order of the Restrictive Trade Practices, Monopolies and Price Control Act (Cap. 50 laws of Kenya).

The minister of Finance in consultation with the Ministry of Energy developed price schedules and circulated to the oil industry for implementation. However, before the oil shock of 1979, pump prices were set by the government in consultation with the oil companies. After liberalization in 1994, the prices were decontrolled by the government allowing the forces of demand and supply to determine the market prices. More entrants were allowed into the market and allowed full participation in the oil industry business in Kenya. The key changes were.

The oil marketers were allowed to either import products directly or process crude at Kenya Petroleum Refineries Limited (KPRL). The restrictive "white oil rule" and existing processing agreement were revoked. National Oil Company of Kenya's mandate to supply 30% of crude oil requirements to the country was revoked. Consumer prices were liberalised and left to market forces. Market activities were expanded to previously ignored areas. The monopoly enjoyed by The Kenya Pipeline for transportation and storage of oil products from Mombassa to Nairobi was revoked with the marketers having the discretion to negotiate for the terms. All distributors became obliged to hold a minimum operating stock of 30 days based on sales from the previous year. Oil marketers were required to hold minimum operating stocks of 10 days for Liquefied Petroleum Gas (LPG). A temporary duty on gasoline and fuel imports was imposed for a period of two years in order to protect the refinery for this period during which it's operations would have been revamped to enable it to compete with imported products. The oil companies were required to process at least 1.6 million tonnes of LPG rich crude oils in order to allow the continued production of LPG.

1.1.3 The Kenya Oil Company (KENOL)

KENOL was incorporated in Nairobi, Kenya on 13th May 1959 under the Companies Act as a limited Company. In terms of it's Memorandum of Association (clause 3 (a), the principal activity of Kenol is the production, refining, distilling, storing, supplying, importing and distribution of petroleum and petroleum products of all descriptions. The company was listed in Nairobi Stock Exchange in September 1959. In January 1986, Kenol and Kobil Petroleum Limited (Kobil) entered into a joint operations and management agreement. This arrangement resulted in the sharing of a wide range of costs, including depots and management services.

Kenol has an agreement with The Kenya Pipeline Company (KPC) for storage and transportation of petroleum products to various parts of Kenya. It uses Kenya Petroleum Refinery Limited (KPRL) for the refining of its imported crude. All the oil companies are required to process 70% of their crude requirements through KPRL. Kenol is active in the major sectors of the economy such as transport, energy, agriculture, tourism, construction, aviation and marine. The company markets a wide range of petroleum products and lubricants.

In December 2001, Kenol launched it's own brand of lubricants in the Kenyan market. The lubricants, which are now sold in the neighbouring countries through the subsidiaries, are blended locally. In 2002 Kenol launched a new product line called K-

Gas. This is the Liquefied Petroleum Gas (LPG) brand. Kenol was the first oil company to introduce low sulphur diesel to the Kenyan market.

Kenol currently operates 65 service stations in Kenya and 82 service stations outside Kenya. The number of service stations has grown from 41 in 1991 to 170 in 2005. In the last few years the company has entered into agreements with convinience stores, restaurants, mobile phone providers and banks. The businesses are managed by independent third parties who pay licence fee to the company.

In 2003 Kenol temporarily closed down some of its stations in Kenya due to difficult trading conditions. Although the stations were closed temporarily, Kenol retains the long-term leases of some of the stations with a view of re-opening them once market conditions make it possible for them to be profitable again.

In May 1999 Kenol set up Kobil Uganda Limited as a wholly owned subsidiary. In June 2000 the Group acquired 100% stake in Galana oil Uganda limited (renamed Kobil Uganda Limited). In May 2001, Kenol set up Kobil Tanzania Limited as a wholly owned subsidiary. In March 2002 Kenol acquired 100% interest in Jovenna Zambia limited. In May 2002 the group started Kobil Rwanda which is a wholly owned subsidiary. December 2004 Kobil Ethiopia was started and lastly in December 2005 the group acquired 100% of Shell Rwanda. Due to changes in market conditions, Kenol disposed its 51% interest in Mid-Oil Africa Limited (Mid – oil).From the afore mentioned, it is evident that Kenol has undertaken a number of changes in the their business for the last 10 years

1.2 Statement of the Research Problem.

Oil marketers in Kenya like any other organization are environment dependent. They rely on the external environment to carry out their activities. They have to constantly understand the changes taking place in the external environment for them to survive. While understanding what is happening in the external environment is important, they have to go an extra mile of carrying necessary adjustments in their way of doing business to match the changes. The nature of changes taking place in the external environment affect the organizations future business. The Kenya oil industry environment for oil marketers has experienced many changes in the external environment. The changes range from political/legal, economic, and social to technology changes.

The Kenyan government liberalized the oil industry in 1994. Prior to this period the industry was highly regulated in terms of number of players and the pricing of the product. The number of players has increased in the last 10 years. This has made the industry one of the most competitive ones in Kenya. The industry has also shifted from that of high dominance by foreign multinationals to that of more local players taking active roles.

Environmental safety concerns are being given more attention in the industry now than before. Additionally more and more organizations are putting emphasis on corporate social responsibility. On the international scene, the crude prices have been experiencing an upward trend. Kenya does not produce oil and all the players have to import their market requirements. Kenol is operating in this changed environment. It is one of the players in the oil industry in Kenya. How has it responded to the changes affecting it?

1.3 Objectives of the Study

The research had two objectives.

- The study was to establish the changes that have taken place in the external environment of Kenol.
- It was also ascertain the responses that Kenol has had for the changes taking place in its external environment.

1.4 Importance of the Study.

The study was to help gain an understanding on how Kenol has adapted to its external environment. The study was also to enhance the understanding of the dynamics of the oil industry in Kenya. The study was to contribute knowledge on strategy especially in dealing with external environment for the oil industry. The study was to motivate new entrants on the best approach in the oil industry and shade some light on expectations in the industry.

CHAPTER TWO

LITERATURE REVIEW.

2.1 Concept of Strategy.

Thompson and Strickland (1978) argue that strategy is the game plan that Management of organization has for positioning the company in it's chosen market arena, competing successfully, pleasing it's customers and achieving good business performance. This definition emphasis the concept that strategy is about the Management goes about deciding the day to day running of the organizations. A game plan brings out the idea of competitors for the organization, successful competition means that an organization will not compete for the sake of it but must be making gains by beating the rivals in the field after which this must be translated into customer appreciation and the ultimate goal of excelling in their business. No organization can be in business without fulfilling those significant roles. It means an organizations has to devise a way of surviving in the industry that it operates in. an organization without strategy will be a dead one. They however, further postulate that the concept of the game plan has to be the idea of management which is different in organizations depending on the structure and that role delegation approaches in organizations.

The understanding that the game plan has to be management oriented does not bring out the fact that strategy is not the preserve of management of the organization and that it is intergrated approach by the entire organization as opposed to it emanating from Management only. Management should be seen as figureheads who collaborate with other staff in order to come up with a strategy for the organization. Additionally sometimes organizations come up with a strategy to meet other objectives e.g. improve it's public image, enhance corporate governance or to keep pace with the changing legislative requirements.

Koch and Richard (2000) stipulate that strategy is the commercial logic of a business that defines how the firm can have competitive advantage. Their main focus is on competitive advantage which is the ability to provide goods and services effectively in a way that you outperform your rivals in the same business. The argument lays a lot of emphasis on competitors as the main reason for coming up with a strategy in business. With competitors being a dominant factor in the external environment, there is every need for an organization to ensure that the way it conducts its business

addresses the key competitors ability so that they can succeed. Any organization that ignores the competitors' ability is bound to lose out in business. They further argue that strategy is what a company does and how it actually positions itself commercially and conducts the competitive battle. Competition is a battle and that each organization is out to win. It plunges from the common belief that strategy has to be a highly formalised and complex blend of plans and systematic approaches to a daily evaluation of business decisions so as to enable the organization move in the right direction. The actions that the organizations perform on day-to-day basis form the strategy of an organization. This is on the premise that the running of an organization is an ongoing undertaking that can be split into very minute action processes to be undertaken in order to achieve all.
Their argument however focuses on strategy as being inclined to competitors and that organizations are in existence to defeat the rivals in a battle. It does not mention the role of customers in the whole scenario something organizations consider critical. Other similar objectives of organizations like business performance and maximisation of the stakeholder's interest are ignored as part of strategy.

Johnson and Scholes (2002) define strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through it's configuration of resources within a changing environment to meet the needs of markets and to fulfil stakeholders expectations. The argument stretches the meaning of strategy. By it's very nature a strategy is multi-dimensional in nature and entails various interests on it's way to adding value to an organization. It multi-faceted understanding of the key inputs into the strategy and the role it plays in the organizations existence. Unlike the other scholars, Johnson and Scholes introduce the concept of resources as one of the key catalysts into strategy of the organization. Without resources there is little an organization can achieve. Resources give a firm the potential to exploit the available opportunities in the environment and gain superior performance. Resources require financial commitment from the organization, which has to be ready to sacrifice. They also pick the concept of the environment as being dynamic and that organizations have to learn to keep pace with so as to ensure superior performance.
They however do not score well on the argument that strategy has to be long-term in nature. This means that all strategies in organization have to have a long term

lifespan, this is not entirely true as organizations though with long-term strategies, they are made of numerous shorterm action points which when together added up they form the long-term strategy in an organization. In reality most organizations have a long-term strategy, which radically differs with the actual implemented strategy. Some scholars refer to this as planned versus the realised strategy. For a concept to be embraced as a strategy it has to be seen to be the one that was used to achieve results that were desired in an organization.

Michael Porter (1998) defines strategy as that which gives the organization competitive advantage over the other players in the industry. To attain competitive advantage Porter agues that an organization has to outperform it's competitors in carrying out it's objectives so as to make gains to itself while the rest share the losses and may deem it not viable to be in business. The postulation is based on the premise that organizations operate in an open environment set-up and that they have a lot of characteristics in common and they continuously compete for the same resources and share the customers as well.

2.2 Environment Dependence of Organizations.

Organizations depend on the environment for survival (Ansoff and McDonnell, 1990). Survival of organizations is the continuity of conducting business while it's able to meet its objectives. In this respect then the external environment can be viewed as a source of life to organizations and should be continuously monitored to ensure that the activities of the organization are conducted in such way that they satisfy the needs of the environment. The external environment dictates what takes place in any organization and any decision will in most cases be a reflection of what is happening in external environment. This is most universal concept applicable across all organizations irrespective of the nature of the organizations, the size of the organization or the industry in which it operates.

Johnson et al (2005) describe the external environment as being uncertain. They associate the concept of the uncertainty in environment as the reason why organizations pay such high attention to what is happening outside them. Organization have never come up with an accurate model that forecasts what will happen in the environment in which they operate in. Additionally, the fact that the uncertainty relates to the future of the organization makes its role a role a significant one and one which they cannot afford to ignore.

Hussey, (1998) contents that all organizations have to come up with a strategy of handling the external environment. The external environment is composite of numerous factors and a host of influences. No organization will be faced with one factor which they have to resolve in order to succeed. The external factors are also complex in nature. The complexity arises because of the interconnections between the various factors that influence the external environment. There is no clear demarcation as to where one factor stops and the other picks from. Notably also the occurrence of one external factor has a multiplier effect and will result into other factors exerting their influence on the organization. The other reason why they are complex in the way they exert influence in the organization is because while organization tend to place a lot of emphasis on the factor that is affecting the organization mostly in the current, they tend to ignore other factors. The last reason why the environment is uncertain has to do with the speed of change of the factors that make up the environment being quite uncertain. The factors are quite dynamic in nature and the nature and speed of change is not easily predictable by organizations. They have to be ready for any eventuality.

Porter (1985) describes the competitive forces in an organization as being externally driven. They all originate from the external environment and are responsible in exerting impact in the organization. The critical element according to Porter is to understand the links between the forces of competition. This is on the premise that none of the external forces operates in isolation and that any occurrence of a force a has a multiplier effect on the organization. Additionally the forces of competition are not independent; they rely on one another to form any meaningful influence in the organization. While they depend on one another, the extent of force shifts and the impact consequently varies from time to time. Porter argues that an organization is able to succeed if it disrupts the stability of the competitive forces that are external to the organization. Mwathi, (2003) asserts that it is critical for the firm to define it's role in the external environment. It then goes ahead to create a disruption in the same environment. The disruption creates a new business portfolio on which opportunities and threats present themselves. It is up to the organization to take advantage of the disturbed state of external forces to create value for itself by being the creators of new rules in the environment.

Thompson and Strickland, (1978) conclude that effort has to be significantly engaged in scanning the external environment. The enormous level of resource dedication of organizations in handling the external environment has been brought about by the significant role it plays in the success of the organization. The external environment can be viewed as that influence that cuts across the entire organization. The dynamic nature of the external environment has seen it being studied from time to time with an objective of making attempts to understand the various transformations taking place in the external environment. A review of the various studies on external environment have pointed to a conclusion that no single study can exhaustively accommodate the entire subject of external environment, they tend to place emphasis on a specific element of external environment so as fit into a given objective.

Hill and Jones (2001) view the external environment as the source of life to organizations. The state of the macro economic environment determines the wellbeing of the economy hence the ability of the company to earn adequate returns from its investments. They argue that under normal business operations, even a start up will first start with what is happening in the external environment before making a decision to engage itself in business undertakings. No organization is self serving (Aosa 1998).

Stoffels (1994) describes the nature of relationship between the external environment and organization as that of constant interaction with the external environment carrying an upper hand in the relationship. Organization therefore have to make sure they move from not paying attention a great obsession to what is happening in the external environment. The activities that relate the organization to its external environment are called boundary activities. So it is up to the organization to continually monitor boundary activities in the organization to be able to take action when necessary and make the link between the organization and external environment favourable to the organization.

2.3 Challenges of Increased Competition.

Chepkwony (2001) carried out a study on the strategic responses by the Kenyan Petroleum firms to challenges of increased competition in the industry. The focus was on the industry level competition. He noted that firms in Kenya operated in an open system and that they constantly interacted with the external environment. The open system concept is derived from the resources requirements that all firms in the petroleum industry rely on the external environment to derive their resources and that the output ultimately ends up in the same external environment.

Abeka, (1996) found out that each major oil company had launched at least one product in the face of competition brought about by liberalization. To be able to survive, there was need for the oil industry firms to interpret correctly the changes taking place in the external environment in which they operated. He acknowledges that the external environment can be enormously complex in that internal efficiency is one issue which is sometimes considered a minor issue.

The organization has to find and obtain needed resources and act on the environmental changes, dispose off outputs control and co-ordinate internal activities in the face of environmental disturbances and uncertainties if it is to be effective.
The findings of the study indicated that the oil firms generally changed their ways of business by recognising that competition was eminent from upon the liberalising of the oil industry by the Kenyan government in 1994. The observation agrees with the external environment dependency (Ansoff and McDonnell, 1990)

Even though, the study focussed on the responses the petroleum firms had to increased competition, it does not specifically look at the key changes that took place in the external environment that brought about the competition except the concept of opening up the oil industry to competitors. Kombo, (1997) emphasizes on the need to continually adapt to the changing external environment. No universal approach can be used to indicate how the various firms adjusted to the external environment as each of the firms has a unique strategy to business depending on individual firm objectives and may not exactly do what the other firm is into in order to stay in business.

The study places emphasis on product strategy as the key ingredient in the success of the firm in the liberalised market. While this is verifiable, it will not significantly explain the nature of the adaptation of the firms to the changing business environment. On a regular basis firms take the perspective of a wholesome strategy to the changes in all the external variables as opposed to taking a position that is highly inclined to ensuring that their product is available in the market.

Mintzberg, (1993) postulates that change is gradual and transformational in nature. While liberalisation was a dominant factor in the change in external environment for the oil firms Kenya, it only acted as the starting point for many factors that later affected the operation of the industry. The findings of the study suggest that all the changes in the industry were based on the stationery liberalised market introduced that took loot in 1994. Other environmental factors played a key role in the shaping of the operation of the oil firms in Kenya. Additionally the changes were continuous in nature and required the firms to constantly be alert to areas of influence around them to be successful in business.

2.4 Does Internal Environment Add Value to Organizations?

Hassan (2005) places emphasis on the managerial and organization factors influencing the strategic change. The study recognises the significance of strategic change as a main mechanism through which organizations achieve realignment to the changes in the environment. The changes noted related to competitiveness, technology changes and social changes, which occasionally pose threat to the survival and effectiveness of the organization.

Internal environment consists of variables that are within reach of the organization. They include structure, culture and resources (Wheeler and Hunger, 1990). Organizational structure and management are internal re alignment of firms that can be highly associated to the internal efficiency of the organization. For instance having an good organizational structure is important for survival of firms whether they are faced with the changing external environment or not. For a firm to be able to conduct its business in successful way it basically has to ensure that the alignment of the organizational structure to the business strategy is maintained at all times.

Nyoike and Oketch, (1999) acknowledge that though internal re-organization is essential to the success of the organization, it is not everything. Managerial and organizational factors are both considered as basic elements in the success of any organization. While they obviously add up to what the overall strategy of the organizations, they cannot be the source of major influence to strategy change in firms. It has to be the other way round i.e. external change and its influences in managerial and organizational factors.

The study was conducted for the major oil companies in Kenya in the period ending 2004. Over the concerned period their was shift in control of the industry in the Kenyan market. This shift saw local companies like Kenol and other independents eat into the market share of the other companies that used to dominate the market in earlier periods. Notably the management orientation of local companies was different from the so called multinational companies that had dominated the market for a long time. This makes it hard for a study to mainly focus on the management across all the major firms in the industry without taking assumptions that they share a common managerial ideology. Mintzberg, (1993) concludes that power structures within the organization have to be reviewed in away that they address the changes in external environment. The Reviewal has to be in a way that is specific to each organization.

2.5 Nature of External Environment.

Minzberg et al (1999) describes the environment of an organization in business to be the pattern of all external conditions and influences that affect its life and development. The environmental influences relevant to strategic decision operate in a company's industry, the total business community and the world over. The corporate strategist is usually aware of the features of the current environment. In all categories of external environment, change takes place at a varying rate. They argue that it changes fastest in technology and slowest in politics. Change in the business environment necessitates continuous monitoring of a company's definition of its business, lest it falters. Further that the environmental changes are normally future oriented and therefore demanding that those who participate in the strategy formulation must have an understanding on how the future will given the changing conditions of the external factors.

Howe(1977) define the external environment as those factors that supply the organization with the required inputs but whose control is not at the discretion of the organization. The external environment can largely be divided into general and task environment. The general environment represents the broader factors that have no direct effect on the organization. On the perspective of impact, the general environment represent those factors that though they can experience significant changes in then, the impact they carry on the organization is minimal. The general environment will therefore include macroeconomic, demographic, legal, political and social cultural world in which the organization operates. The task environment on the other hand represents factors that have an immediate impact in the operation of the organization when they change. Normally this factors are of more relevancy to decision making in organization when compared to the general factors.

The general agreement on the external environment is that for the organization to be successful, there need to be a careful analysis done on the various influences and how they work out towards the determination of success in business. The realization that all organizations are open systems (Aosa 1998) demands that critical emphasis be invested in monitoring the external environment continuously so to be able to forecast the expected action to be taken in the event that the usual patterns of the environment change.

However, the proposition that technology changes fastest while political environment carries the slowest changes may not be applicable in all organizations. What really counts is the fact that each organization operates in a unique environment. The rates of change of the factors will be influenced by attributes that are unique in each of the environment in which specific organizations operate in. Companies operating in middle East for instance may find the political environment as the most volatile environment based on the events surrounding them. It's all a factor of what carries more impact in the organization: there organizations that are more prone to specific changes than others. Each organization if asked can rank the various influences based on what affects them most.

2.6 How Strategist Think on External Environment.

Gavetti and Rivkin (2005) argue that strategy is about choice. Further that the heart of a company's success depends on what it chooses to do and how it links that to what is happening in the external environment. What prompts the organization to think of strategy has to do with the unfamiliar problem or opportunity and how to exploit the same. Many organizations tend to get stuck in the way they do things. A culture that can highly be associated with the norm ways of going around any undertaking. The challenge that comes with this is that very few firms are able to evaluate the changing priorities in business consistently with the changing environment outside of them. The tendency is to think on how to deal with the change based on our experience about the past. This poses a sure recipe for failure in most organization because rarely to future situations require thinking similar to what has happened in the past to be able to succeed. While a lot of lessons can be picked from our past experiences, confining all the future thinking to what has been the norm in the firm will not be effective in terms of handling the external environment.

Some of the findings of the study are that a firm will be inclined to seeking for similarities between the changes in the external environment that is happening currently with what happened in the past. The missing link is that changes in environment attract an evolution in an industry and that the opportunities will have shift. The success of a firm in an evolving industry will largely rely on the how it readily shifts its objectives in readiness to take advantage of the changing industry in order to succeed. The firms that fail to change their ways so that they run the business in the light of the new opportunities will not make it. Drucker, (2002) contends that the period we are living in is one of the profound transitions and changes are more radical that those of the 2nd revolution and great depression. The study describes the habit of firms being stuck with one way of handling every change in external environment as anchoring. The anchoring effect suggests that early decisions on how to handle external environment in a firm even if they have taken root casually, can have a lasting influence in the way firms handle the future.

The study also picks the concept of confirmation effect in handling how companies react to changes in external environment. The confirmation effect stipulates that firms will search for information that confirms their beliefs that what they are about to do is correct. This arises because in most cases the strategy drivers in firms will seek for information that confirms them right about what they are about to undertake. In the process of confirming their beliefs, they fail to understand the nature of change taking place in the external environment and therefore what they are required to do so as to succeed in light of changes taking place.

Ohmae, (2001) insists that change is envitable if companies are to be effective. On his proposed way forward on how organizations should overcome the challenge of handling a changing environment in their strategy, they suggest two ways.

First firms should recognise the source of change to the industry. Most changes are obvious and that their origin can easily be understood by the organization. However, some changes are hidden in nature and will not be picked easily by the organization. The commitment of the organization to understanding the source of change is considered key in being to lay down a strategy on how to go about adjusting the operations to fit the circumstances.

Secondly the firm has to translate, decide and adapt to the changes. This requires that the firm maps out the available possibilities from the changed environment and decides on how to move forward. Although the study was based on American companies, it highlights what is necessary for the success of a firm in a changing industry. The broad guidelines could have a lot of relevancy in any changing environment.

2.7 Simple Rules of Strategy.

Eisenhardt and Sull (2001) postulate that when business landscape was simple, companies could afford to have complex strategies. But now that business is so complex, they need to simplify. Successful firms have done just that with a few straightforward, hard and fast rules that define direction without confining it.

They argue that most firms that have risen in the recent past did not do so because the environment they were operating in was attractive but because they were able to weigh the changing environment closely with options available and closely monitoring the actions of their competitors, imitators and customers. This means that although the environment is changing and can be seen to be independent of the firms actions, there is a lot of understanding that can be drawn from the reactions of the competitors, imitators and customers to the changing environment that is key in the future success of the firm. Some firms in the industry may be afraid to take the initiative and will soon be driven out of business.

Johnson et al (2005) describe the external environment as being uncertain. When the business landscape was simple, companies could afford to have complex strategies. But now that business is so complex, they need to simplify. The rules in this context means the steps a company has to go through before arriving at a decision that will affect the future of a company. Making the rules simpler means having a relatively less complex approach to decision making. It also enables firms respond fast to the requirements in the external environment. Simplicity in the criteria for making decisions means flexibility in the firm. Flexibility will enable the firm to not only focus on how they will change their strategy to meet the changing business environment but also evaluate whether there could be options outside the routine way of looking at issues which will help the business to survive.

Managers within a competing business environment can choose among three distinct ways to fight. The reason why organizations struggle so much to match external environment is to meet the customer expectations (Mwindi 2003).While doing that they need to build a fortress and defend it, they can nurture and leverage unique resources, or they can flexibly pursue fleeting opportunities within simple rules. Each approach requires different skill sets and works best under different circumstances.

Building a fortress entails establishing a competitive position within the industry. A position that derives relative good value to others. The firms have to learn the key drivers in the external environment and locate a defensible position. A defensible position in this case has to be one with considerable barriers of entry e.g. lobbying the government to have the have control supply of products in a market. The position has to tightly integrate to the activities of the organization so that the duration of the competitive advantage is sustained. The only disadvantage that comes with taking a position is that when the external environment on which a position has been build changes, the firm may have it difficult to exit from the position which it had already committed itself to (Porter 1980)

The resource based strategy development for a changing external environment is based on the premise that firm posses unique resources relative to its competitors and that the resources when well used within a changing business environment will the firm to survive and gain competitive advantage for the firm. This method of handling the external environment best works where the firm has at its disposal unique, valuable and inimitable resources.

Fleeting for opportunities within simple rules is a strategy derived from the emergent strategy development process. In this approach firms pursue opportunities arising in the external environment. It involves capitalising on what develops out of the changed game plan outside the organization. The changed game plan arises out changes taking place in the external environment. Firms under this category seize opportunities as they come up, make sure they finish strong within the opportunities identified and keep moving whenever the environment changes. The basic question will always remain; how should we proceed?

Study highlighted key approaches to strategy within a changing environment. This is significant to help firms get a overall framework on what should be done. However the study was based in different environment from that which Kenol faces. This makes it the context under which the study was done different from the one to be carried for Kenol. Moreover even if the external environment for firms change the nature of change will be different for different set ups and no single approach will fit in all firms.

CHAPTER THREE

RESEARCH METHODOLOGY.

3.1 Research Design.

The study used case study design. The design was used to gather systematically factual information necessary for understanding how Kenol has adapted/responded to changes in the external environment. A case study is an in-depth investigation of an individual, group, institution or phenomenon. A case study was suitable for this research as it involved a complete observation of a social unit emphasizing in depth rather than breadth analysis.

3.2 Data Collection.

The study required both secondary and primary data. Secondary data was collected from existing records at Kenol including strategic corporate plans, organizational structures, researches and studies done on oil marketer. Primary data was collected by interviewing the 8 departmental heads at Kenol and was guided by a questionnaire.

3.3 Data Analysis.

Data collected was analysed as per the set objectives using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involved observations and detailed description of objects, items, or things that comprise the sample. Content analysis was used to objectively identify specific characteristics of messages (Nachmias and Nachmias 1996). Relations and trends was important in drawing understanding and conclusions.

CHAPTER FOUR
RESEARCH FINDINGS.

4.1 Mission and Vision for Kenol.

In the year 1998, Kenol together with it's sister company Kobil developed a mission and vision statements. The vision statement was. "***To be a leading brand in Kenya and a major player in East Africa***". The vision statement was largely expansionary and looked at the company as a growing company. It had a desire of expanding its business to the neighbouring countries. In the year 2004, the vision statement was revised to: " ***To be a leading brand in Kenya and a major player in Africa***". This was due to the realisation that its business had surpassed the initial targeted growth. Kenol sees vision what the company desires to be in future and its business role in society.

Kenol has a mission statement that is made of three key components. These are:

> "***To develop, improve and increase quality and total value of our products and services".***
> ***"To become a market leader through continuous innovation, customer focus and to provide highest quality products and service".***
> ***"To maintain a highly motivated, well trained human resource base***"

The mission statement developed by Kenol sought to provide guideline on what it is to be done to so as to achieve the desired vision. It emphasises the short to medium strategies for the company that were to help attain its long term goals. The mission statement that Kenol came up with views the entire business as a source of success. It strives to integrate the various key component of the business so as to derive success to the organization. Market leadership was given prominence and hence Kenol had to look for ways of keeping the customer satisfied.

Kenol as well came up with business values. This are meant to define the way Kenol conducts its business. The statement of business values starts with the principles of corporate governance which include accountability, integrity and ethics. It also states that the business of the company will be carried in an efficient and safer manner with an objective of establishing a beneficial long term relationship to all the stake holders. Additionally it reinstates the intention to protect the investments of the shareholders. Abiding by the law of the country of operation as well safety of the environment has been emphasised. The above business values represent the day to day running of the company. They formed the framework on which Kenol conducted its business. They reflected the ethics that Kenol wanted to have in place so as to succeed in business. This was necessary for the key reason that any growing business will try all sorts of opportunities to realise their dreams. So for Kenol this was not the case it ensured that all engagements were acceptable and met their basic tenets of their business values. Additionally Kenol developed a new logo for the company. The logo was meant to change the image of the company and be consistent with the newly developed vision and mission statement. The new Kenol logo is presented in three distinct colours; Red and green curved stripes almost encircling a nearly black circle. Both colours and their graphic representation are intentionally significant.

4.2 Changes in External Environment for Kenol.

4.2.1 De regulation of Kenyan Market .

The government of Kenya has been generally stable for the last 10 years in terms of governance. No events occurred that radically interfered with the stability of the government. However the key change introduced by the government that had a major impact on the oil industry was the market deregulation in 1994. The objective was to have a market driven industry as opposed to government driven industry. The forces of demand and supply became key determinants of various factors in the operation of the oil industry in Kenya. After liberalization in 1994, the prices were decontrolled by the government allowing the forces of demand and supply to determine the market prices. More entrants were allowed into the market and allowed full participation in the oil industry business in Kenya. The oil marketers were allowed to either import products directly or process crude at Kenya Petroleum Refineries Limited (KPRL). The restrictive "white oil rule" and existing processing agreement were revoked. National Oil Company of Kenya's mandate to supply 30% of crude oil requirements to the country was revoked. Consumer prices were liberalised and left to market forces. Market activities were expanded to previously ignored areas. The monopoly enjoyed by The Kenya Pipeline for transportation and storage of oil products from Mombasa to Nairobi was revoked with the marketers having the discretion to negotiate for the terms. All distributors became obliged to hold a minimum operating stock of 30 days based on sales from the previous year. Oil marketers were required to hold minimum operating stocks of 10 days for LPG. A temporary duty on gasoline and fuel imports was imposed for a period of two years in order to protect the refinery for this period during which its operations would have been revamped to enable it to compete with imported products. The oil companies were required to process at least 1.6 million tonnes of LPG rich crude oils in order to allow the continued production of LPG.

4.2.2 Changes of Taxation Policies

The major change in the taxation policy was in 2004 when the government de-bonded all the inland depots. This policy translated into payment of taxes at entry of the product into the country. The entire product in transit to the upcountry depots must have been paid for on exit from Mombasa. The rates of taxation have literally changed every financial year with adjustments generally inclined to the upward side and on rare occasions being reduced. The major change in the tax rates has been zero rating on products like LPG and Kerosene in the financial years 2004/2006. The white products have also enjoyed a close to 8 years of VAT free regime. The Kenya Revenue Authority that is mandated to collect revenue on behalf of the government required all taxes be paid using a system account. The system introduced is called the Simba system. Effectively all oil companies had to open an account and utilise them in all their transactions. This presented difficulties in implementing and was characterised with a lot of resistance from many players in the industry. At the same period of time Kenya Revenue Authority introduced the suspended duty claims where all duties for oil marketers in Kenya. These amounts were meant to be refunded by Kenya Revenue authority

4.2.3 Introduction of OTS System

Open Tender System (OTS) introduced by the government in 2004 was a fundamental change in the way supply of products in the industry was controlled. The initial objective was to streamline and regulate the importation of crude and refined petroleum products for use in Kenya. It came about because of the desire to achieve a level playing field for all petroleum companies in Kenya. The economies of scale were central to its start because huge imports would ultimately translate to reduced overhead costs if it were left each of the players to it their own way. The industry demand of products was to be met by floating tenders on monthly basis and letting the winners import on behalf of the industry. The objective of the change was to ensure that the demand for market products is met. Storage and delivery conditions for the winning bidder were spelt out. Not all players were allowed to be members of the OTS system. The criteria for allowing being members was through demonstrating consistent market interest by way of share in the respective sectors. A committee from the Petroleum industry players was put in place to govern it.

4.2.4. 70% of Inland Sales from Kenya Refineries.

The ownership of 50% of the Kenya Refineries Limited facility by the government of Kenya has a lot of implications in the oil industry. The other participants who partially own the refinery are Kenya Shell 17.1%, BP 17.1% while Chevron owns 15.8%. As at the research period the refinery was over 40 years having been constructed in 1963. The key regulation put in place by the government in regard to Kenya Petroleum refinery was the requirement that each of the marketers 70% of the inland market be processed through the refinery. The 70% requirement was driven using the market share of the players a quarter of a year basis. This rule has significantly affected the operation of the oil players in the market. Firstly the capacity of the refinery to meet the 70 % of the inland market has been falling short of the constant market growth experienced in the oil industry. Secondly the fact that the refinery has failed to offer the oil marketers with the required standards of products especially on Diesel. The world standards of Sulphur in diesel has been constantly been reduced to curb on the harmful effect on the environment.

4.2.5 Opening up of East African Markets.

The economic environment for Kenol consisted of multiple factors. They were the various key elements including the key markets, financial environment, growth/decline of the economy and purchasing power of the consumers. The economic environment for Kenol has changed significantly for the last 10 years in each of the situation, Kenol adjusted accordingly to the changes. The changes provided both opportunities and threats to Kenol. The opening of the markets in the

East and Central Africa has affected Kenol in different ways. The opening up of the East African environment strengthened the Kenol's vision and mission of the company in the regional market. However the opening up of the borders for the neighbouring countries impacted negatively to some parts of the Kenyan market especially the Western Kenya market. Products meant for the export market were redirected back into the Kenyan market though a process called dumping. This made available cheap and untaxed products in the Western Market. The easy availability of cheap products in Western Kenya made the market very uncompetitive and most major players opted to close business in this region. In the wake of 2004 at least 3 major players had either divested from the market or sold majority of the outlets in the region.

4.2.6 International Crude Prices

The international crude prices have been on the constant increase for as long as Kenol has been in existence. Kenol sources it product mainly form the Middle East. This part of the world has experienced constant instability which has driven the prices of products upwards on a consistent basis. The prices have significantly increased in the last 5 years only making the cost of business go up significantly. Additionally the cost of product has been driven up by the strong cartel Organization of Petroleum Producing Countries (OPEC). OPEC has been deliberately controlling the supply of crude to the market from its member countries. The objective of the control is largely to secure high prices by causing shortage in the market. The impact this has had in Kenol was to pass the cost to the customers as it was envitable to in order to remain in business. It also undertook the strategy of maintaining a good relationship with its key suppliers to secure the product at very competitive prices.

4.2.7 Social Changes.

Kenol is environment dependent. It sources it products from the external environment and relies on the same external environment to consume its output. The other key driving force has been the understanding that Kenol needs to give back to society and be actively involved in addressing problems facing the society. The payment of Taxes has been given emphasis in Kenya and neighbouring countries. Collection and payment of taxes has been key to developing countries and Kenol operates in this environment. In the late 1990's the Kenyan industry adopted the concept of making employees part of the company owners through a popular programme: Employee Share Ownership Scheme (ESOP). This largely affected publicly listed companies and Kenol is one of them. Additionally the informed Kenyan population has with time placed a lot of expectations on what the companies return to the society. The global influence has generated a culture of comparative analysis between companies. This has been largely on the premise that what other companies are doing in the rest of the world will easily be known even in Kenya and that some of this companies have an influence in the Kenyan market will demand that the Kenyan companies do the same to survive. Corporate Social responsibility has gained popularity in Kenya most companies are getting involved in some social activities aimed at benefiting the society.

4.2.8 Technological Changes.

The oil industry in Kenya has experienced many changes in technology. Firstly, the need to be efficient operations of the company has driven not only Kenol but majority of the companies into seeking for ways to harness the benefits of technology towards reducing the cost of doing business. This is the case because the nature of oil business industry is transaction intensive hence attracting a lot of costs. The other driver of technological changes has been the desire by oil companies to have more attractive petrol stations and utilising modern technology in doing the same. Unlike the past where the oil companies emphasis was purely on the product, the petroleum industry is at a stage where one has to pay attention to the looks of the station so as to be able to as much as possible look more appealing and attractive to the customers.

Environmental concerns have given rise to a lot of changes in the way players in the oil industry do business. The ever increasing pressure on reduction of sulphur and lead levels in Petroleum, this arose from trends happening across the world. So oil companies have to find out a way of obtaining products that meet the set environmental standards. Consistent with the pressure on sulphur and lead levels in products is the need to dispose the by products arising out business process activities of the oil companies. Regulations have been put in place to ensure safe disposal of waste and by products and this required oil companies to adjust on a need basis. While this is considered good for all the stakeholders, it needed a lot to be put in place to ensure compliance.

The international crude prices fluctuate continuously based on both fundamental and speculative reasons. There is need for Kenol to monitor the continuous movement of world prices so as to weigh the impact it has in the local markets. The movements have been erratic not easy to forecast on. At the moment all the oil products marketed in Kenya and the neighbouring markets where Kenol has a presence are sourced outside Kenya. The cost of obtaining oil has over time become a significant cost of doing business. This has implications on the currency rate movement as most purchases are denominated in United States of America Dollars. Additionally since the players have an interest of continuing business, there is need to monitor the movements in price levels.

4.3 Responses of Kenol to changes in External Environment.

4.3.1 Competition with New Entrants

Kenol argues that the deregulation was the greatest test it has ever faced in its operation. It changed the rules of the game in the oil industry in Kenya. The starting point for Kenol was to abide by the numerous regulations that were introduced by the government. The transition was a rough one characterised with changes in business strategy for the company. The many changes introduced were hard to be implemented and this opened a lot of loopholes especially for the market players. One of the most challenging aspect of them was to start setting prices for its product in the market. The multiple factors that influence the prices and rapid nature of their change made it difficult for oil players to cope up with the right pricing for their products in the market. Kenol set up system to monitor the changes in market prices both form the supply and demand side and them factor this into their pricing system. It still boasts of having the most flexible and market sensitive pricing system in the oil industry even in the current market.

4.3.2 Participation in OTS and Trading Business.

Kenol responded to the introduction of OTS by ensuring membership as one of the participants. The result meant that Kenol could participate in all the tenders floated for the industry and by using it's competitive pricing strategies, it could easily win a number of them. OTS remains process of serving majority need of crude and refined product in the oil industry in Kenya. Though storage of the product and transportation was liberalised, Kenol and other major players continued relying on Kenya Pipeline and foe the same function because of the scale required before entering into the market and the fact that it wanted to concentrate more on marketing of the product and not storage. Additionally Kenol could import both refined and crude products into the market as long as it met the proportional requirements set by the government. On changes in taxation, Kenol has been transferring the impact of taxation to the consumer and rarely has the government made it mandatory to bear the effects of the changes in taxation. On the introduction of the OTS system, Kenol became a major participant winning a considerable proportion of the tenders in 2004 and 2005. By winning the tenders, Kenol effectively sourced the product at competitive prices which were to ensure maximum returns to the company and acted as a key supplier of the product in the market. The OTS system stills serves the requirement of product in the Kenyan industry as at the conclusion of this research.

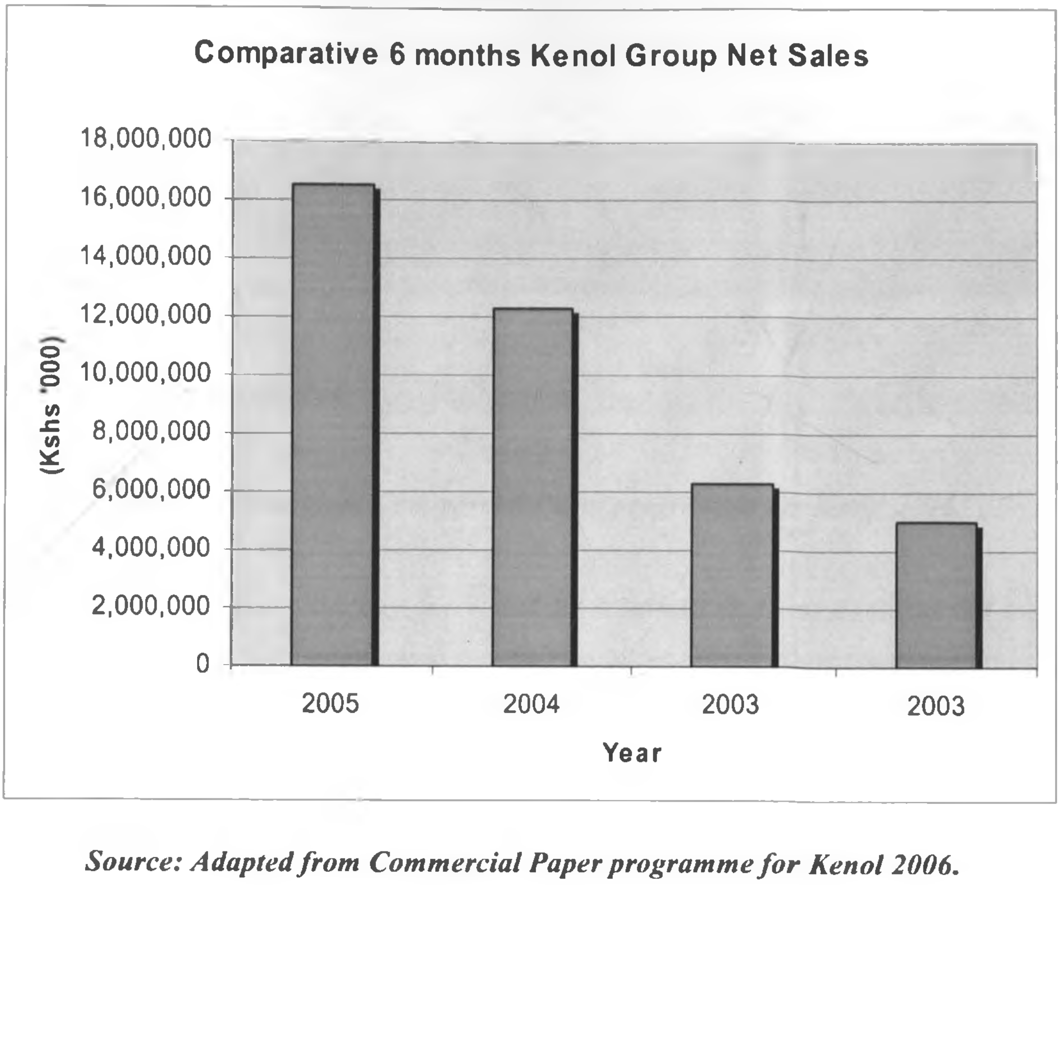
Initially Kenol reckons that the two decision carried a financial implications in their working capital. It required the company to source more working capital to run its activities. However the biggest setback in Kenol's view was the fact that the Kenya revenue Authority had not even processed refund due to the oil marketers. This has continued stifling the operations of the oil marketers in Kenya. Since it became an industry problem, the oil marketers came together and trying to have the government process the refunds and consequently have the process more customer friendly in a way that it does not stifle the smooth running of the oil industry.

4.3.3 Expansion by Acquisition and Subsidiaries.

Initially it lead to Kenol expanding into different countries of East Africa by way of subsidiaries. This started in 1999 by opening up of Kobil Uganda through a buy out of the then Galana Petroluem. It then later set base in Tanzania Rwanda and Zambia through acquisition of existing companies. In kenol valuation, the markets in the East

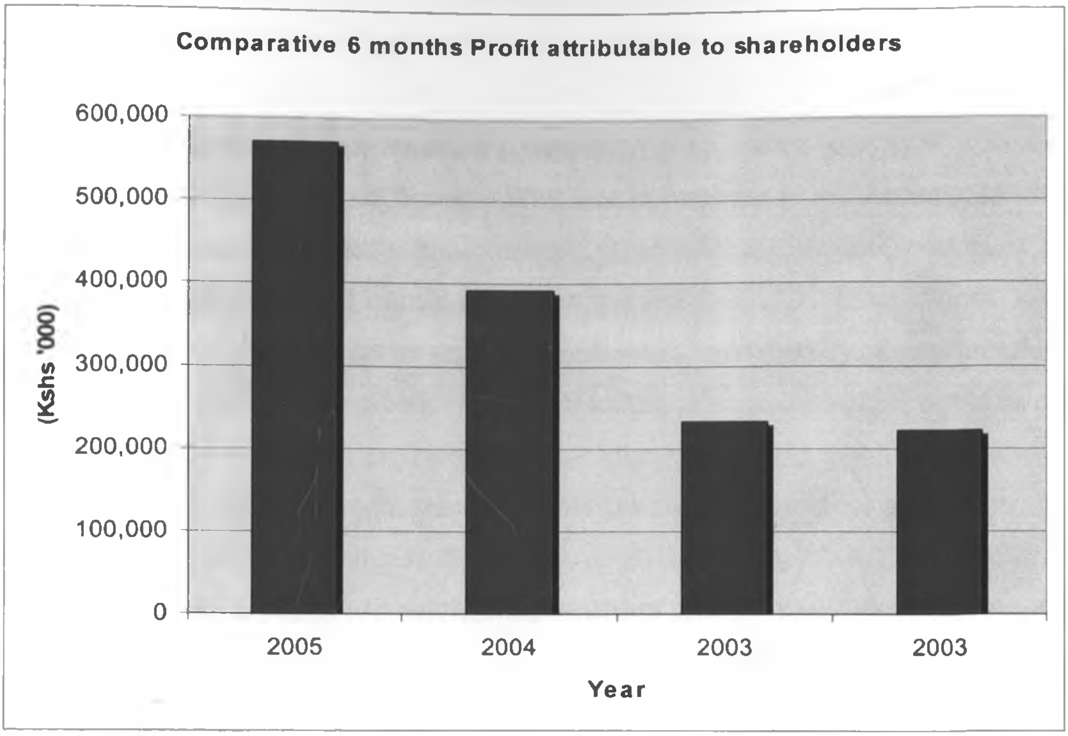
Africa outside Kenya were more profitable and less crowded than the Kenyan market. In Kenol's argument, the market in East Africa outside Kenya were more lucrative, though they were largely smaller in size, the margin were generally better than the Kenyan environment. The expansion provided Kenol with a strong financial base and saw it's profitability expand over the same period of time. This took place in a period of 5 years. The improved financial performance of the company is illustrated in the graph below.

Fig. 4.1 Growth due to expansion.



Source: Adapted from Commercial Paper programme for Kenol 2006.

Fig.4.2 Profitability due to growth.



Source: Adapted from Commercial Paper programme for Kenol 2006.

It was different strategy for Kenol as it undertook to re evaluate the marker for uniquely. It first undertook to run the stations as most dealers could not find sufficient markets to enable then obtain a critical mass to return profits. In Kenol's response, this was meant to retain a market presence in the region and wait for the favourable change of the rules of the game to make gains in the region. However when the going got tough, it was forced to close some of the service station outlets which proofed too costly to run for the company, it however retained title for each of the outlets in the hope that the situation on the ground will improve.

4.3.4 Introduction of a Commercial Paper.

To meet the increasing financing cost as a result of increasing crude prices, Kenol launched a commercial paper in 2001. It sought to obtain short term financing from various external sources. The reception of the float was very positive and went a long way in supporting the short term financial needs of Kenol. The financial instrument has over time been increased from the original amount of Kshs. 500 million to the current Kshs. 1.5 billion. The consistent honouring of the Kenol obligations on the Commercial paper has earned it an improved credit rating of A+. Short terms loans from its financial partners has been key in meeting the cost of business requirements.

4.3.5 Introduction of New Business Lines.

The introduction of various business lines was in response to the customer needs of having a one stop service station concept. Over time, the Kenyan customers had become sophisticated and wanted more than just fuel from the service stations. Kenol has over time improved on its service to customers. Additionally, Kenol introduced the non fuel business line which looked into selling of products that are not in its core business. Key among the products were the scratch cards and mobile phones which was in line with the introduction of the mobile phone industry in late 1990's. The company is one of the biggest distributors of Safaricom and Celtel products in the country. These products and services are available through Kenol service stations. In Uganda, there is a similar arrangement with mobile phone provider MTN. One of the other major non fuel business line was the introduction of restaurants at the station level through partnerships with restaurant companies. The non fuel business line is run independently and maintained their role as major booster of cash flows to the company. It has entered into partnership with Triple A pharmacy and Kengeles Restaurants Group. The Kengeles Restaurants group pays license fees to Kenol for the use of its premises. In return, Kengeles has granted exclusive rights to Kenol meaning that Kengeles Restaurants group cannot enter a similar arrangement with another oil company.

The company went further and introduced its own lubricants business in 2001. In response to the growing volumes, Kenol established a lubricants division in July 2003 to cater for the market needs. The division is responsible for the development, supply and sale of the Kenol lubricants that now account for 11.2 % of the market share of the total lubricants sold in the Kenyan market. The lubricants are also sold in its subsidiaries. The Kenol lubricants are blended in Kenya to meet the lubrication needs in the automotive, industrial, and marine and aviation industries.

K-Gas is the Kenol Group Liquefied Petroleum Gas (LPG) brand and was introduced in the market in September 2002 and officially launched in February 2003. Before K-

Gas was introduced, extensive consumer research was conducted both locally and internationally. The research concluded that consumers had three basic desires when using Liquefied Petroleum Gas: safety, availability and value for money. To guarantee supply of K-Gas to the consumers, Kenol has invested in a modern LPG plant at the cost of USD1.5 million that began its operations in February 2006. The plant will also allow Kenol to penetrate the commercial segment which previously could not be targeted due to capacity constraints. K-Gas was launched it the Kenol subsidiaries as follows: Kobil Uganda (2004) Kobil Rwanda (2005).

In 2002 the company formally established a trading desk jointly with Kobil charged with developing new markets in African countries, especially those that have no refining facilities for petroleum products. To date, the trading desk has won tenders to supply petroleum products to Mozambique and has successfully completed the contracts to the satisfaction of the clients. The trading desk is actively participating in tenders to supply petroleum products to Malawi, Sudan, Ethiopia, Mauritius and other countries in the region. Businesses in this market are denominated in US dollars are generally guaranteed and/or confirmed by letters of credit issued by reputable international banks, which reduces both foreign exchange and credit risk. In 2004, the trading desk won 70% of the crude and 45% of the products imported into Kenya under Open Tender system (OTS). Future developments on trading activities involve growth and expansion strategies. Consideration is being given to extend trading activities outside of Kenya and setting up a trading desk in Southern Africa to support the Group activities and service the inland markets of southern African region.

4.3.6 Kenol Scholarship Scheme.

The Kenol Scholarship scheme started in the year 2002. It has the objective of supporting bright but needy students through their education. Since its inception in 2002, the Kenol Scholarship Fund has expanded in scope, benefiting 25 students so far. Nine of these have since sat for their KCSE examinations, with all of them attaining the minimum qualification grade to join university. Year 2004, four students sat for the KCSE examinations, with one attaining grade A (plain) and another grade A- (minus). As per Management promises to the students, the Human Resources Manager is consulting Departmental Heads with a view of offering these two top students employment in the organization as they await to join university. Already, four previous beneficiaries have been working with Kenol. The other four initial beneficiaries have all received admission letters to join public universities, beginning next month. The beneficiaries have already signed bidding agreements with the organization that once they finish university, Kenol/Kobil will be their first employer of choice, if it so wishes. The Kenol Scholarship Fund is special in that it takes a wholistic approach to the beneficiaries' welfare, including school visits and counseling, performance monitoring and a promise for future employment for those who excel in their studies. Beneficiaries are drawn across all regions in the country, and thorough vetting is done to ascertain the respective beneficiaries' backgrounds and academic abilities.

4.3.7 Sponsoring Mama Ngina Childrens Home

The second major social responsibility for Kenol is the commitment to Mama Ngina Children's home in Nairobi Kenya. The home cares for the abandoned and destitute children in society. Kenol has been of support both materially and morally to the home. They are the key sponsors at the home. Staff from Kenol from time to time avail time to go and share and guide the children at the home. In terms of financial commitment, Kenol has been able to buy a school van for the childrens home. The idea of buying a school van was prompted out of the school which Kenol's has played a key role in its being. The school has been officially named after Kenol and this goes to show the commitment that Kenol has to supporting the Children's home.

4.3.8 Ensuring Taxes are paid to Government.

In 2004, Kobil Petroleum Limited was recognized by the Kenya Revenue Authority as the second highest tax payer of the year. The recognition was a confirmation that the company owes its business success to the nation as a whole, and that the nation is the company's first and foremost corporate social responsibility recipient. The same award was given in the year 2005. The company recognises that adherence to the country's tax collection rules is key to the sustenance of economic growth. The award came at a time when the government was struggling to control the tax evasion experienced in some parts of Kenya. In Kenol's argument, they demonstrated that it is possible to unlike the traditional notion by many Kenyans that submission of taxes is a loss of business revenue; it is practical to comply with the taxation laws and still remain successful.

4.3.9 Employee Share Ownership Programme.

In a bid to make employee feel part of the Kenol Company, it introduced the employee Share ownership programme in 2003. The Scheme is targeted at making it possible for the people who are responsible for their good performance to benefit from the company's profits. In 2003 awarded 87,247 bonus shares (31,997 bonus shares and 55,250 executive share options before the company's share was split. More than 100 employees of the company's subsidiaries also benefited from the scheme. The move to implement more shares for employees is aimed at further increasing productivity and employee motivation. The Scheme is independent of the Kenol's operating results.

4.4.0 Monitoring International Prices on Reuters.

Kenol went into contract with Reuters international in 2004 to provide real time movement of world oil prices though a monitor. This facility helps indicate the various products ranges. Additionally on daily basis world oil process based on plats are circulated to all members of the management team. This is done though an e-mail facility. The plats provide a previous days average trading prices for oil in the international markets.

Kenol was the first oil company in Kenya to introduce the low sulphur diesel and unleaded premium (prior to even National Implementation of the same by Dakar Declaration that took effect on 1st January 2006) to the Kenyan Market. Low sulphur Diesel has half the sulphur content of regular diesel. It is far more environmentally friendly than regular diesel. By reducing sulphur levels, the brand increases the vehicle engine life and of course reduces harm on the environment. Low sulphur diesel is also compatible with all diesel engines without any need for modification. Currently low sulphur diesel is available in Mombasa, Nairobi, Naivasha, Nakuru and other towns where Kenol has stations. Plans are in place to further reduce the sulphur content in low sulphur diesel further.

4.4.1 Embracing ISO Standards.

In year 2003, Kenol embraced the International Organization for Standardization (ISO 9001:2000) quality management system. The objective being to get their products acceptable in international markets by meeting the required standards. Kenol set up an internal ISO certification committee to steer the company towards attaining the pre requisites for the award. Kenol realized that when it embarked on expansion of its business, it significantly impacted on the international environment and had to practice the acceptable ways of doing business. The standards laid out by ISO provide a foundation on which the company will build improved quality management and assurance systems to achieve higher levels of international competitiveness in quality, pricing and delivery of products. The application of ISO quality management system in Kenol business is meant to serve the twin role of enhancing the competitiveness in the market as well as set a precise criterion to be used consistently in all areas of the company business. This included guidelines and procedures to be used when importing crude oil or when transacting in the local retail market, bulk trading, airplanes refueling and the export business. The ISO 9001:2000 certificate awarded to Kenol was a very positive measure of the steps the company has taken in to bring quality to Kenol and ultimately to its customers. A major factor appearing in all aspects of a company's success story is that of quality as perceived by a customer. This could be quality of the product itself or the perception of the product. If the quality of the product is low, the quality of the perception by the customer will be low.

The ISO standard also dealt with the disposal of waste to the environment. The nature of the petroleum business makes it possible to have a lot of waste products that are emitted into the immediate external environment. The products could arise from the processing of the products or consumption by the customer. The standard defines what a waste is and steps taken once that has happened. A common issue addressed in this standard has to do with how to handle oil spills either at the customer's site or while still at the company's premises. The ultimate concern is to reduce the harmful effect to the environment of the products handled by the company. Various countries including Kenya are also coming with standards to control the negative effects of the waste not only from petroleum companies but also other industries.

4.4.2 Marketing of Improved and Environment Friendly Products.

In response to this challenge Kenol imports low sulphur diesel in refined form to meet it market requirements. On a larger scale, the industry players and the other mentioned stakeholders of the refinery are pressure on the government to upgrade the refinery to the required standards. The sustenance, maintenance and enhancement of the environment in conjunction with the communities in which Kenol carry out their business activities has been given prominence. This commitment encompasses the protection of staff, customer, both communities and the general public on health and ensures that Kobil activities enhances and improves their safety, which is reflected in its Motto. Through this commitment, Kenol conducts its business with the vision of satisfying the economic aspirations of humanity and at the same time maintaining a friendly environment that provides safety and health. The Management has the responsibility to realise the commitment to Environment, Health and Safety by conducting business in a manner acceptable to the public, and in compliance with statutory legislation and protocol.

To achieve this policy and to ensure high standards in its operations, the company shall be guided by the following objectives: To recognise that long-term business only thrives in an environment that is friendly, healthy and safe. Ensure that business activities cause no harm to people. To carryout regular training to staff, contractors, customers and the general public on the importance of environment, health, safety and quality issues. Create, promote and propagate a culture in which all staff, as one team, identify and share the Company's commitment to environment, health and safety matters. Guard against misuse of oil as an energy resource and always encourage efficient use for optimum benefit.

4.4.3 Developing Quality Standards.

A quality policy was also put in place for Kenol. It emphasises the commitment that Kenol has to provide high quality products that meet the international standards and satisfy the customer needs. The company recognised that sovereignty of the customer as its driving force, and endeavours to create value in the products supplied and services offered. We commit ourselves as a team to attaining and exceeding the expectations of our customers, shareholders, employees and other stakeholders. The objective of quality is to be achieved through: Emphasizing, enhancing and cementing our partnership with all our customers and business partners. Sharing our knowledge on quality requirements with customers and business partners. Consolidating our position as a leader in innovation with a special emphasis on efficiency, quality and clean environment. Working with and listening to our suppliers with regard to quality and process integration. Ensuring that all employees are trained in, understand, practice and feel part of our quality management system. Establishment and maintenance of a quality management system modelled on ISO 9001:2000 and continued improvement of its effectiveness. Compliance with all other relevant requirements.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Summary

5.1.1 Changes in external Environment for Kenol.

The findings generally indicate that the external environment for Kenol experienced changes for the period under study. The scope of the changes covered was; political, economic, social and technology. The key political changes were deregulation of the market, change tax laws and the introduction of the OTS system for sourcing products. Economically, the Eastern African markets opened up, need to increase the product lines and continuing rise of the international price for oil products. While the social changes were largely on the increasing need to participate more on community rewarding activities. The technological front was faced with the demand for better looking stations, improved and more efficient ways of monitoring world oil prices and the need to have improved products that reduce the harmful effect on the environment after use. The changes were largely sporadic and unrelated to one another, though a few could follow a specific pattern. Trends that cut across the each of the key changes were analysed together to bring out the relationship and draw desirable conclusions.

5.1.2 Response to changes in External environment.

Kenol also responded to each of the changes in a unique way. The company was largely playing catch up to the external environment for survival and meeting it business objectives. Some of the responses resulted from more than one change in the external environment; in this case the responses were apportioned to the respective categories in a way that the main observation is not lost. Kenol adjusted to the deregulation of market by coping with competition of new entrants, it abided by the changes in tax laws for the country as well as actively participating in the OTS system. It also expanded it business by way of subsidiaries and other acquisitions, introduced new business lines as well new product lines. A kenol Scholarship Scheme was set up, It embraced the ESOP for employees and established a strong support partnership with Mama Ngina Childrens home. New environmentally friendly products were introduced in the market, better stations have been put as well the adoption of ISO 9001:2000. Arguably the above responses demonstrate that Kenol is dependent on the external environment. The external environment plays a significant role in the existence of players in the oil industry. This role has continued dictating the way firms run their business in terms of strategy. The case of Kenol demonstrates a firm that has tried its level best to play catch up to the changes taking place in the external environment with some degree of success. Attributed to their success in adjusting to the changes in the external environment has largely been due to the adaptable management strategy and commendable flexibility in their approach to various changes.

5.2 Conclusion

The external environment will continue posing various challenges to the existence of Kenol. To some extent the past approach to responding to changes in external environment may not be used to demonstrate the ability of the firm to handle to future changes. This is on the premise that immense resources are required to continuously keep the company abreast with the changes and rate of change of the external environment cannot be predicted with a lot of ease. However it's the objective of the firm to have the least cost but best and prompt approach to responding to changes in its external environment.

5.3 Limitations of the study.

The case study relied solely on employees of Kenol to obtain the changes that took place in its external environment. This kind of reliance is prone to some of level of subjectivity as employees will want to portray their organization as having been successful in responding to all the changes that have taken place in Kenol's external environment. Additionally, some senior employees had been with the organization for a relatively short period of time to be able to highlight all the significant changes and responses to external environment by the organization.

5.4 Recommendation for the study.

Desirably, it would be interesting to carry out an empirical study on whether there are firms which don't respond to changes in external environment. This will serve to explain whether there are exemptions to the results obtained by this study.

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APPENDIX 1

QUESTIONNAIRE.

PART A. BIOGRAPHICAL DATA.

a) Position...

b) Department...

c) How long have you worked in the oil industry in Kenya?

d) How long have you worked for Kenol?

e) Do you know Kenol's vision? Yes/No

f) Do you know Kenol' s mission Yes/No

g) Have you participated in Kenol's development of the Corporate/business plan Yes/No

PART B. CHANGES IN EXTERNAL ENVIRONMENT AFFECTING KENOL.

1. What are the major changes in the legal/political environment that have affected Kenol in the last 10 years?

A) --

B) --

C) --

D) --

E) --

2. Describe the major changes in the economic environment that have affected Kenol in the last 10 years.

A) --

B)--

C)--

D)--

E)--

3. Describe the major changes in the social environment that have affected Kenol in the last 10 years.

A) --

B) --

C) --

D) --

E) --

4. Describe the major changes in the technological environment that have affected Kenol in the last 10 years.

A) --

B) --

C) --

D) --

E) --

PART C. KENOL'S RESPONSE TO THE EXTERNAL ENVIRONMENT.

How has Kenol responded to changes in the changes identified in part of the questionnaire.

5.Political/legal environment

A)--

B)--

C)--

D)--

E)--

6. Econmic environment

A)--

B)--

C) --

D) --

E) --

7 Social environment.

A)--

B)---

C)--

D)--

E)--

8 Technological environment.

A) --

B) ---

C) --

D) --

E) --

PART D. CONCLUSION.

9 Are the responses to the external environment by Kenol adequate? please explain

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10. Have the responses produced the desired results.

11.Are there changes in the external environment that Kenol has not responded to?

12. How does Kenol intend to respond to these changes?

13. What else should Kenol do to remain relevant in the market place?

14. Does Kenol have the necessary capabilities to match internal resources to the external environment? Yes/No

15. If no, how can theses capabilities be acquired?

16. Any Comments.

Thank you.

APPENDIX 2

LETTER OF INTRODUCTION

UNVERSITY OF NAIROBI
SCHOOL OF BUSINESS

June 10th, 2006

MBA RESEARCH PROJECT

Dear Respondent,

I'm a postgraduate student in the School of business studies, University of Nairobi. I'm conducting a management research on the responses on Kenol to changes in the external environment.

In order to undertake the research, you have been selected to form part of the study. This letter is therefore to request your assistance in filling the attached questionnaire. The information will be treated with strict confidentiality and is needed purely for academic purposes; even where a name has been provided, it will not under any circumstance appear in the final report.

A copy of the final report will be available to you upon request.

Your assistance and co-operation will be highly appreciated.

Yours Sincerely

Felix Ongaga
Student

Evans Aosa
Supervisor.
Professor in the School of Business Studies,
University of Nairobi.