A STUDY ON STRATEGIC GROUPS IN THE OIL INDUSTRY IN KENYA

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DECLARATION

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

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This project has been submitted for examination with my approval as a university supervisor.

21/11/2008

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DEDICATION

This piece of work is dedicated to my mother the late Mrs.Bernadine Musonye who passed away in 2007 after a brave battle with heart failure.

ACKNOWLEDGEMENT

I would like to thank The Almighty God through him all things are possible.

I wish to express my gratitude to my supervisor Prof Aosa for his guidance, motivation and patience throughout the project. I am also indebted to my employer Jan Theys who inspired me through his words of wisdom and encouragement. I am also grateful to Jackson Maingi my research assistant for his dedication in ensuring that this project was a success.

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ABSTRACT

Strategic groups represent collections of firms that are similar on key strategic dimensions. Because opportunities are not evenly distributed across an industry, some industry segments offer better profit potential than others. Firms occupying one niche may be tempted to expand or to change strategies in order to exploit opportunities as they arise in other areas of the industry. The oil industry in Kenya has a diverse number of firms with varying degree of complexity and scope of operations. The industry is therefore a highly dynamic environment characterized by new entrants and exit of major firms as well as others engaging in joint operations and acquisitions in attempt to align their businesses to the changing environment.

This research evaluates the strategic groups in the oil industry in Kenya with the objective of establishing the existence of strategic groups in oil industry in Kenya, identifying the mobility barriers that define these groups and finding out how these groups responds to the dynamic market. Cross sectional survey design is used where 32 oil companies are surveyed out of 47 to give a representative picture of the oil industry in Kenya.

The oil industry in Kenya is found to consist of five strategic groups separated by mobility barriers whose boundaries tend to be narrowing with time allowing movement of some firms across group. The movement of firms across group is found to be a deliberate action aimed at maximizing returns of the oil firm and strategic positioning for future sustenance of the firm.

During targeting of respondents in the survey, it was realized that some firms remained dormant although they were registered. It was difficult to get in touch with appropriate respondents from these firms hence; the research could not establish their strategic position in the industry limiting the research to active oil firms. Further research is therefore recommended to find out the why these firms were formed and what made them become dormant after setting out their vision.

CHAPTER ONE: INTRODUCTION

1.1 Background

The application of strategic group theory in strategic management research stems from observation by Hunt (1972). He argue that, there appeared to exist performance differences between groups of firms within the same industry as well as across industries, contrary to theories existing at the time of industrial organization which assumed an industry was homogeneous except to the size of the firm. It became apparent that firms within an industry are heterogeneous in terms of the resource they possess and strategies they pursue and those differences create different performance outcomes. These existing groups within an industry were referred to as strategic groups, Porter (1979). Barney (1986) by giving a greater emphasis to resource heterogeneity of firms defined a strategic group as a set of firms that are attempting to modify or exploit similar structural characteristics of a given industry.

Even though, both Porter (1979) and Barney (1986) attached a greater significance to the strategies and resources separately in defining a strategic group, a number of previous studies raised the importance of incorporating mix of variables in strategic group formation (McGee and Thomas, 1986). Mapping of such strategic groups within an industry is considered to be useful way of tracking industry dynamics as firms become more similar to or different from each other.

1.1.1 Concept of strategic groups

Strategic groups represent collections of firms that are similar on key strategic dimensions (Hunt, 1972; Porter, 1979). Caves and Porter (1977) argued that strategic groups are subsets of an industry separated by mobility barriers that limit movement across groups. There is expectation that these different strategic groups have different performance levels based on the concept of mobility barriers. Because opportunities are not evenly distributed across an industry, some industry segments offer better profit potential than others. Firms occupying one niche may be tempted to expand or to change strategies in order to exploit opportunities as they arise in other areas of the industry. However, mobility barriers restrict such opportunism. Specifically, shifting to a different strategic group can be risky because the necessary investment in developing the needed skills and products may be substantial, while the perceived opportunities may be short-lived. Thus, firms generally choose not to change groups because of the risk that the enhancements gained will be less than the costs incurred (Mascarenhas and Aaker, 1989). As a result, we expect that strategic groups that occupying lucrative industry segments should outperform those in less fertile areas.

The traditional view of strategic group draws from industrial organization economics and proposes that firms within strategic groups collude to competitively isolate themselves from firms outside of their group (Caves and Porter, 1977). Consequently, firms within certain groups create a favorable competitive environment for themselves compared to firms in other strategic groups within the industry. Such collusive actions on the part of firms in a strategic group result in the erection of mobility barriers that limit the ability of outside firms to effectively mimic their strategic position (Dranove, Peteraf, and Shanley, 1998). This collusive activity benefits all firms within the group, leading to similar performance among them. McGee and Thomas (1986) identified three broad categories of mobility barriers: market related strategies, industry supply characteristics, and firm characteristics. Many of these do not require collusion to maintain and are costly to surmount, such as distribution channels, economies of scale, and firm boundaries. These perspectives all suggest that significant performance differences will exist across groups.

Peteraf and Shanley, (1997) proposed that a strategic group with a strong identity will increase its reputation; hence reputation could be used in identifying and classifying firms into certain strategic groups. Reputation has been defined as the knowledge about a firm's true characteristics and the emotions towards the firm held by stakeholders of the firm. In essence, reputation reflects what stakeholders think and feel about a firm. Different types of reputation have been studied, such as for being a tough competitor, for being a good place to work, and for having quality products.

Martens, (1988) observed that the strategic group structure is not a very stable phenomenon and that firms in groups that had a relatively low strategic distance experienced many strategic group shifts. It is therefore expected that group boundaries are highly dynamic for strategic groups which tend to be closer to each other and a slight shift in environmental factors or internal organization may relocate a firm from one group to the other.

1.1.2 The oil industry in Kenya

Before 1994, the oil industry in Kenya was government regulated with pump price controls and supply controls by use of national oil corporation. The formation of the National oil corporation was precipitated by the oil crisis of the 1970's which resulted in supply disruptions and price hikes. In the national interest it was therefore felt necessary to have greater control of this crucial factor of the performance of the economy by having a company, which would act as an instrument of government policy in matters related to oil. National oil corporation initial activities mainly consisted of exploration activities delegated from the ministry of energy. The company then started importation of 30% of crude oil into the country in 1988 which was sold to oil marketing companies based on market size.

The petroleum sector was deregulated in late 1994 with the removal of retail prices controls of petroleum products and liberalization of the importation of crude oil and refined products. As such National oil corporation activities were reduced to exploration and marketing just like any other oil company. However, the petroleum sector could not be fully deregulated by the government mainly because of the market's dependence on Kenya Petroleum Refineries (KPRL) for liquefied petroleum gas (LPG), and the absence of a viable infrastructure for its importation at the time. Therefore, the government requires oil companies to import and process crude oil through the refinery.

The oil industry in general is divided into two sections: upstream and down stream operations. Upstream operations involves exploration and production works that will lead to discovery and mining of petroleum (crude oil and natural gas) In Kenya, the exploration work is done by major oil companies e.g the China petroleum, Woodside and Chevron. This is done through leasing of exploration blocks at a fee under the supervision of the National oil corporation on behalf of the government. Down stream business is not highly visible in Kenya since there has not been any discovery of petroleum reserves yet since exploration started in the 1970s. However, recent discoveries of crude oil in Uganda and Sudan in addition to natural gas discoveries in Tanzania have intensified interest and exploration activities in Kenya. Down stream operations include refining of crude oil into petroleum products, shipping and trading activities, Storage, overland distribution and retailing. The system is complex and highly interdependent.

The main players in the petroleum sector include the Kenya Pipeline Company (KPC), KPRL and the oil marketing companies. KPC which is government owned operates the pipeline, depots for product storage and truck loading. KPRL which operates the only oil refinery in the country is owned 50% by the government, 17% by Shell, 17% by British Petroleum and 16% by Chevron. Crude is processed at a fee on behalf of the oil marketing companies. The various petroleum companies involved in the distribution of petroleum products are usually referred to as the oil marketing companies (OMCs).

As per ministry of energy 2007 data, there are 6 main stream companies (commonly known as the majors) and a growing number of smaller distribution companies (commonly known as the independents which are 41 in number) that have sprung up since the liberalisation of the petroleum sector in 1994. The major oil companies were the first to establish in Kenya and included Shell, Total, BP, Chevron, Mobil, Agip and Esso. They have major capital investments. After liberalization in 1994 competition opened competitive pressure that has seen poor company profitability, shakeouts, outright insolvencies, or deliberate withdrawal from the market place. Several of the major multinationals which have pulled out including Agip, BP, Mobil, Esso and more recent development of planned pullout by Chevron.

The independent oil companies came about after the petroleum industry was liberalised in October 1994 as part of structural adjustment programs (SAP) for the energy sector. This was expected to bring about a realignment of the market structure, and facilitate competition by removing behavioral and structural barriers to entry that had given the major multinationals monopoly of operations. Following this liberalisation, the first independent petroleum dealers to be registered were small-scale international importers who were targeting the export market in the great lakes region. It took about a year after liberalisation for the first independent retail outlets to emerge.

Kenya due to its proximity to the Arab Gulf gets its crude oil supplies from Abu Dhabi, Iran and Saudi Arabia. Refined products too come from these Middle East countries and India. All dealers in petroleum products obtain licenses from either the ministry of energy or the provincial administration, depending on the nature of their operations. This could be importers, exporters, wholesalers or distributors.

At the onset of liberalisation, the handful of multinational oil companies accounted for in excess of 90% of all petroleum products imported into the country, and a perfect 100% of retail business. After liberalisation, the companies operating in the petroleum industry in Kenya could be classified into three broad categories: First, traditional multinationals which were companies that existed during the price-controlled regime before liberalization in 1994. Second are new entrants multinationals which are companies wholly owned abroad but entered into the Kenyan market after liberalisation in October 1994. And thirdly are independent petroleum dealers which are individuals or small companies owned mainly by indigenous Kenyan business people, and mostly operate at the retail level with few outlets. The third category sources their products mainly from the multinationals or through resellers/distributors. Their individual market share is much smaller.

The oil market can also be said to be structured into trading, retail, commercial, reseller, aviation and exports. Retail is where targeted end user is at retail site and this where brand strength and visibility plays an important role. Being high margin by nature, this sector also requires huge investment in order to be able to meet the minimum safety standards as set, and obtain the desired high customer impact and service. Expansion of the retail network has been critical in spreading services like sale of bottled liquefied petroleum gas (LPG), top-up lubricants, and other alternative non-fuel business. Commercial selling involves bulk sales to big customers mostly in the manufacturing, transport or other sectors. This sector is driven by need for equipment, huge credit lines, heavy discounting, lube bays and other incentives.

Reselling encompass those sales made to third parties who wholesale to other smaller individuals or retailers. Competition here is normally very stiff and so the margins are quite depressed. Oil marketers compete in this sector mainly to meet their volume objectives. As a result this sector is very unattractive in terms of margin, but is largely cash rich. Exports constitute sales into neighbouring countries mainly into Uganda, northern Tanzania, Burundi, Rwanda, south Sudan and east Democratic Republic of Congo. This sector is also facing very stiff competition owing to the fact that ports in neighbouring countries are beginning to open up. However it is a flourishing sector as region begins to enjoy some political stability and peace. Aviation is also one of the target market sectors, however its biggest challenges is safety aspect and heavy capitalization required in systems and machinery that will be acceptable internationally. Kenya's strategic location amongst regional warring states has provided opportunity for aviation sector. Trading of petroleum products has largely remained the preserve of the big companies because of the capital outlay that is required (Kahira G, 2006). It involves shipment of product into the country either inform of crude or refined products.

Other area of focus in the oil industry is fleet management since it forms an integral part of the supply chain system. Initially the major multinationals owned trucks with the objective of wanting to control the whole supply process, however, outsourcing became fashionable due to transfer of risk and process to third parties thereby minimising distribution costs involved. This became apparent as margin started to squeeze after liberilisation of the oil sector and meant that oil companies had to be innovative in reducing operational costs. Environment, health and safety are also an important aspect due to the risky nature of the product and green marketing.

1.2 Research problem

Martens (1988) observed that the strategic group structure is not a very stable phenomenon and therefore group boundaries are highly dynamic for strategic groups which tend to be closer to each other and, a slight shift in environmental factors or internal organization may relocate a firm from one group to the other. Strategic groups being subsets in an industry are separated by mobility barriers that limit movement of firms across groups denying these firms from realizing higher profit potentials that lie in the different strategic groups. McGee and Thomas (1986) identified three broad categories of mobility barriers many of which do not require collusion to maintain and are costly to surmount e.g. reputation. Strategic groups may also collude to competitively isolate themselves from firms outside their group creating mobility barriers.

The oil industry in Kenya has a diverse number of operatives with varying degree of complexity and scope of operations. This has seen some firms trying to develop synergies out of collusive activities. Different firms also generate different emotions to which stakeholders associate the firm with. With a highly dynamic environment, the industry has new entrants, exit of firms as well as joint operations and acquisitions in attempt to align businesses to the changing environment (Kahira, 2006).

The research intends to answer the following questions. Do strategic groups exist in the oil industry in Kenya and how has the group boundaries been defined by mobility barriers? What are the future predictive trends regarding the different strategic groups and how have firms behaved to safeguard their profit potential of their niche?

1.3 Research objective

The research has three objectives which are;

- To establish the existence of strategic groups in oil industry in Kenya.
- To identify the mobility barriers that define the various strategic groups
- To establish how the different strategic groups deal with dynamics in the market.

1.4 Scope of the study

The study will be limited to licensed oil firms operating in Kenya and will include multinationals operating in Kenya. The study will cover the various levels of integration in the oil industry and channels members involved in the oil supply chain.

1.5 Importance of the study

By helping in defining group structures, the study will help in identifying which firms are in direct competition either through inter group rivalry or intra group rivalry and this will assist the firms in the oil industry in Kenya in formulating marketing strategies that will help them position competitively in the market.

The study examines the question of how likely it is for another organization to move from one strategic group to another. This will assist in determining profit potentials and sustainability in holding competitive edge in respective strategic groups within the industry. This will help firms formulate sustainable strategies that will see them through the dynamic market environment by helping in identification of opportunities and strategic problems existing in the oil industry in Kenya.

Few studies have been done regarding strategic groups of industries in Kenya. This study will help build on the existing knowledge in strategic groups and specifically in the oil industry in Kenya both for academic purposes and for the professional manager in the oil industry.

1.6 Variables of the study

As prescribed by porter (1979) the variables of the study were drawn from the mobility barriers that are specific to the oil industry in Kenya, which are; size of the firm, legislation, level of integration, cost of investment, level of advertising, experience levels, patents and technology

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategic management

Pearce and Robinson (2003) define strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It provides overall direction to the whole enterprise and integrates organizational goals, objectives, and action plans into a cohesive whole. Strategic management is dynamic process and it is partially planned and partially unplanned where strategy is planned and emergent, dynamic, and interactive. There are critical points at which a strategy must take a new direction in order to be in step with a changing business environment. These critical points of change are called strategic inflection points.

The nature of strategic management is different from other aspects of management. It is not enough to say that it is the management of the process of strategic decision making. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organization-wide implications (Johnson and Scholes, 1999). Strategic management includes strategic analysis. This is where the strategist seeks to understand the strategic position of the organization. Strategic choice has to do with the formulation of possible courses of action, their evaluation and the choice between them. Lastly, strategy implementation which, is concerned with both planning how the choice of the strategy can be put into effect, and managing the changes required (Johnson and Scholes, 1999).

Strategic management is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. It is the highest level of managerial activity, usually performed by the company's chief executive officer (CEO) and the executive team.

In the 1990s strategic management research focused on the internal resources and competence of firms over industrial structures to explain sustained competitive advantage. In the face of developments in resource-based theories of the firm, strategic group theory was relatively neglected. Nevertheless, some research continued and was heavily focused on exploring patterns of intra-industry competition. In this context the work of Bogner (1991) is particularly important. He looked at the US pharmaceutical market for a period of 20 years between 1969 and 1988 and introduced the idea of the competitive group, which he defined as "an intra-industry combination of firms, which are following similar strategies, because they have different historical backgrounds that have provided them with different stocks or competencies or assets and because different managers have identified different ways in which they can compete in the industry" (Bogner, 1991 p. 496). He showed that patterns certainly exist as to why firms change their grouping and under what circumstances and that the underlying nature of these patterns was not consistent with what had been assumed to underlie strategic group structures and their dynamics. He concluded that strategic groups are not simply cognitive creations but are derived from artifacts of strategic intent, resource allocations and product introductions.

Another approach that expanded in the 1990s was an approach to strategic groups based on the pioneering work of Hannan and Freeman (1977) on the population ecology of organizations. This evolutionary view of strategy led to strategic groups considered as equivalent to species. Boeker (1991) in a study of the US brewing industry applied a population ecology perspective to derive strategic groups and this was followed in 1992 by a study from Carroll and Swaminathan, also on US brewing (Carroll and Swaminathan, 1992). These studies argued that strategic groups should be identified in terms of organizational form rather than perceived strategies, which can be normative in nature. In this analysis, organizational form encompasses not only the formal organizational structure but also "all factors that define a population's niche, including environmental factors" (Carroll and Swaminathan, 1992, p.68). In other words, the environment very broadly determines the performance of firms. The result is a deterministic approach to strategic groups under which the scope for independent managerial decision-making is severely constrained.

2.2 Theories in strategic groups

From the beginning two schools emerged in strategic group theory, the industrial organisation school based in economics and centered upon Harvard University, which included the work of Hunt (1972), Porter (1973), Caves and Porter (1977) and Newman (1978); versus what is sometimes referred to as the Purdue school of strategic management, drawing from the writings of Hatten (1974) and Cool (1985) which are discussed below.

Hunt (1972) had formulated competitive strategy in an industry and was elaborated as being "the choice of which strategic group to compete in" (Porter, 1980, p.149) that is to say that, a strategic group is easiest group to enter and which best fits the resource profile of the firm. This defined the strategic dimensions of strategic groups as arising from, extent of technological leadership, product quality, pricing policies, distribution channels, customer service, size of firm, breadth of market, geographical distribution, level of vertical integration, profit/nonprofit, extent of product (or service) diversity, extent of branding, marketing effort and degree of vertical integration

Research undertaken at Purdue University in the 1970s was more rooted in what is now called strategic management theory. It was based on the idea that strategic groups provide a useful analytical tool to aggregate firms into those following similar strategies, with a view to comparing and contrasting them. Sparked by the observation that profitable positions are not a function of firm size or industry concentration, Hatten (1974) classified the US brewing industry into seven strategic groups. He went on to demonstrate that the profitability relationship between groups differed significantly from the profitability relationships for the industry as a whole and concluded that the industry was characterized by heterogeneous conduct that endured over time. The policy conclusion was that industry-wide strategy recipes were to be avoided. From these origins, research on strategic groups then went into a phase during the 1980s where various researchers looked to verify the findings of the earlier research in different industrial settings by employing different performance variables.

These criticisms of strategic groups theory as it had developed especially in the industrial organization literature from 1972 to the mid of 1980s led to a further phase of research. This phase focused especially on three themes, namely: The further exploration of the concept of mobility barriers (Mascarenhas and Aaker, 1989); the stability of strategic groups over time (Cool, 1985); and thirdly the idea of cognitive groups (Reger, 1988).

McGee and Thomas, (1986) had concluded that mobility barriers are a counterpart of group structures and arise from strategic decisions. Decisions which affect the height of the mobility barrier are critical and may be expected to arise as the result of judgments that "cannot be readily imitated by firms outside the group without substantial elapsed time or uncertainly about the outcome of the decisions" (McGee and Thomas, 1986, p.150). The mobility barriers included were endogenous to the firm and therefore the strategic decisions were under management control. Mascarenhas and Aaker (1989) studying the performance implications of strategic groups within the oil industry considered that the concept of mobility barriers was pivotal to the strategic group concept and proposed a further definition of a strategic group, namely: "A grouping of businesses within an industry that is separated from other groupings of businesses by mobility barriers, barriers to entry and exit" (Mascarenhas and Aaker, 1989, p.475). They concluded that mobility barriers are much more about "who you are" and are resource dependent than "what you do" or the actions taken.

Mobility barriers have continued to be a key concept that underpins the idea of strategic groups, providing the means by which sustained performance differences between groups can exist (Porter, 1980). Mobility barriers were originally described to include a policy of collusion in which firms acted in concert to promote their common interest by building high entry barriers in order to protect group profits (Caves and Porter, 1977). The question of which variables to select in order to define strategic groups therefore becomes a matter of which mobility barriers best describe the structural components of an industry that prevents the free movement of firms between groups. Viewed in this way, the use of mobility barriers to define strategic groups becomes a process of identifying the key strategic decisions that build and sustain market position within a given industry.

Dranove et al (1998) exploring the conditions under which sustainable performance differences may persist, reiterate than an effective mobility barriers must be in place to prevent entry of imitation by outside competition, and, in addition, a group-level effect must occur as the result of intra-group strategic interactions (Dranove et al., 1998).

2.3 Perception and strategic groups

Perception in strategic group studies is based on cognitive group research which is derived from the notion that perception is reality and that an understanding of decision processed can help to separate strategic groups. It is assumed that "through processes involving induction, problem solving and reasoning decision makers construct a mental model of the competitive environment" (Porac et al., 1994, p. 119). These models are used both to determine who are the competition and where the corporate focus should be applied when competing. The outcomes of realized strategy then rest, ultimately, upon the institutional and cognitive constructions of decision makers. The idea of primary competitive groups was defined as "the collection of firms that define each other as rivals" (Porac et al., 1989, p. 414).

This approach to strategic groups comprises a minimum of two beliefs. First, that the perceptions of managers about a firm's identity, its competitors, customers and suppliers, determine the set of transactions that link the firm with its environment. Second, that perception determines industry recipes or generic strategies, which in turn delineate the actions necessary to compete in the firm's operating environment. An enduring problem in this type of approach, is that people do not always do what they say will do – nor are they necessarily always truthful when revealing their intended strategy to researchers. An initial proposition connecting strategic groups and reputation was presented by Peteraf and Shanley (1997, p.197) and asserted that 'a stronger strategic group identity will increase a group's positive reputation,' reasoning that a strong identity is more visible to outsiders and would serve as a differentiation signal. A firm projects images that reflect its identity to its stakeholders where these images include not only advertising and public relations, but also strategic actions and verbal statements of strategy, such as those communicated through annual reports or speeches by CEOs. In turn, stakeholders view these images, interpret them and form reputations based on them. Strategy has therefore been connected directly to reputation.

2.4 Mobility barriers in strategic groups

Caves and Porter (1977) argued that strategic groups are subsets of an industry separated by mobility barriers that limit movement across groups. Mobility barriers can be erected from various activities of the firm or operating environment. Incumbent firms may seek to make it difficult for new competitors by spending heavily on advertising that new firms would find more difficult to afford. Here, established firms use of advertising to create consumer perceived difference in its brand from other brands to a degree that consumers see its brand is a slightly different product. This makes it hard for new competitors to gain consumer acceptance. Cost advantages which may be independent of scale such as proprietary technology, favorable access to raw materials, favorable geographic locations, and learning curve advantages contributes significantly to erecting entry barriers. Supplier agreements with key links in the supply chain can make it difficult for other firms to enter an industry. These could be exclusive agreements with key distributors or retailers. Government regulations may also make entry more difficult or impossible. In the extreme case, a government may make competition illegal and establish a statutory monopoly. Requirements for licenses and permits may raise the investment needed to enter a market, creating an effective barrier to entry.

Predatory pricing which is a practice of a dominant firm selling at a loss to make competition more difficult for new firms that cannot suffer such losses. Such firms using these pricing strategies may be riding on large lines of credit or cash reserve. Sunk costs cannot be recovered if a firm decides to leave a market. Sunk costs therefore increase the risk and deter entry. In vertical integration, where a firm cover more than one level of production while pursuing practices which favor its own operations at each level has also been cited as an entry barrier.

2.5 Performance and strategic groups

The traditional view of strategic group proposed that firms within strategic groups collude to competitively isolate themselves from firms outside of their group (Caves and Porter, 1977). Consequently, firms within certain groups create a favorable competitive environment for themselves, compared to firms in other strategic groups within the industry. Such collusive actions on the part of firms in a strategic group result in the erection of mobility barriers that limit the ability of outside firms to effectively mimic their strategic position (Dranove, Peteraf, and Shanley, 1998). This collusive activity benefits all firms within the group, leading to similar performance among them. Firms in different groups face heterogeneous competitive environment that vary in munificence and profit potential. Kwoka and Ravenscraft (1986) argue that effective collusion is difficult to achieve due to coordination difficulties and differences in the cost and benefits of collusion among industry members. Cool and Dierickx (1993) also acknowledged that many factors may affect the ability of firms within strategic groups to maintain collusion, such as market segmentation, the degree to which the strategies of groups differed, and the resource asymmetry of strategic groups. They found that intergroup rivalry increased over time as two large strategic groups moved closer in strategic space, suggesting that the previously advantaged group was unable to build effective mobility barriers through collusion. They stated that 'group membership may indeed facilitate recognition of mutual dependence and thereby foster implicit understandings. However, such membership may also indicate which firms are able to invade each other's market segments when implicit agreements break down' (Cool and Dierickx, 1993, p. 49).

It has been argued that group membership fosters legitimacy of individual firms: "Individual firms gain legitimacy by blending in with others" (Peteraf and Shanley, 1997, p. 177). Thus, firms that identify strongly with the strategic group and are more similar to other group members' should have greater legitimacy than are operating at the fringes of the group. This greater legitimacy enables the firm to acquire resources at better terms from both suppliers and customers for at least three reasons. First, potential exchange partners are more willing to interact with firms whose strategies they easily comprehend or perceive as rational. Second, exchange partners may offer more favorable terms to legitimate firms since they also value the perceived legitimacy enhancement that they receive by interacting with these legitimate firms. Finally, exchange partners may require greater risk premiums from less legitimate firms due to their greater likelihood of failure.

Research from both economic and cognitive perspectives proposed that firms vary in the degree to which they identify with their strategic group, such that some firms follow the group strategy closely ('core firms'), others do not follow the group strategy closely ('secondary firms') while others seem to exist on the periphery or remotely associated with group strategy ('solitary firms') (Caves and Porter, 1977; Peteraf and Shanley, 1997). Core firms may therefore benefit from stronger legitimacy than secondary firms. Firms in their strategic decisions, trade off the benefits of increased legitimacy from being more similar to rivals, with the benefits of lower competition from being less similar. Solitary firms face little competition but sacrifice the legitimacy of being the member of multiform strategic group. In contrast, core firms may sacrifice distinctiveness to gain legitimacy. Secondary firms may be seen as balancing these two competing demands.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

Cross sectional survey design was used since data across the different groups and firms was gathered at one point in time. This research design was chosen because it is an efficient way of collecting information from a large number of respondents and a wide range of information can be collected in a 'frozen' time period. Also, statistical techniques can be used to determine validity, reliability, and statistical significance.

3.2 Population

The target population of the study consisted of all registered oil companies in Kenya. These were 47 in number by December 2007 as per information provided by the Ministry of Energy.

3.3 Sample

A total of 47 firms were targeted but some were eliminated since their operations were considered dormant and it was difficult to identify respondents or physical location of the firms for the purpose of this research. This method of purposive sampling where a researcher confines to specific target people or sample space where known respondents can provide information is supported by Sekaran (2003). 32 firms were therefore identified as a representative sample out of the 47 firms and all responded to the survey.

3.4 Data collection

This study made use of a structured questionnaire. The questionnaire is attached in appendix I. The data was collected using a "drop and pick later" method. The target respondents were logistics and operations managers for the big firms and chief executive officers for the smaller firms. Secondary data was collected through context analysis of industry publications, financial reports and other industry texts that the researcher was able to get hold of. The secondary data was used to examine the nature of the grouping, competition within the groups and how firms are strategizing to maintain competitive edge.

3.5 Data analysis

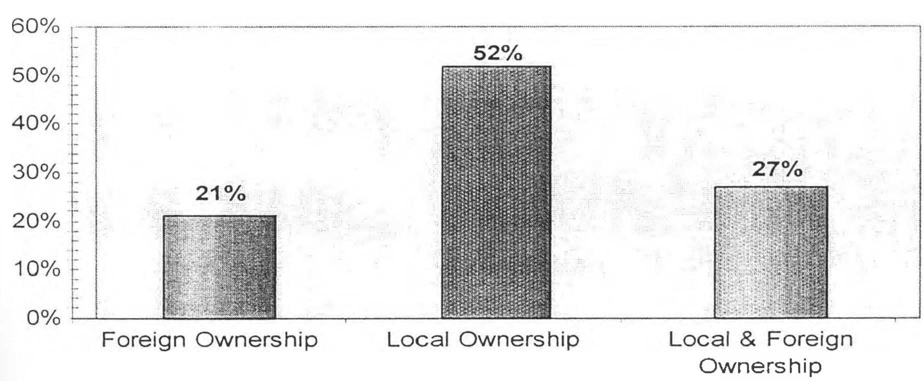
The data collected was analyzed using descriptive statistics. These involved the use of group mapping, cluster analysis, frequency tables, percentages, rank ordering, and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the sole objective of the study. Percentages revealed the proportions of different attributes being studied for relative comparison. Rank ordering helped the researcher to rank different attributes/variables in the order of their representation to equally address the objective of the study. This method has been previously used in a similar study by Mutuku (2004).

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study based on data collected from the field. The overall objective of the study was to investigate the strategic groups in the oil industry in Kenya. The data collected was analyzed using descriptive statistics. This involved the use of group mapping, cluster analysis, frequency tables, percentages, rank ordering and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the sole objective of the study. Percentages revealed the proportions of different attributes being studied for relative comparison. Rank ordering helped the researcher to rank different attributes/variables in the order of their representation to equally address the objective of the study.The sample consisted of 32 out of 47 companies. This was equivalent to 68% response rate.

Figure 1: Demographic of the oil industry

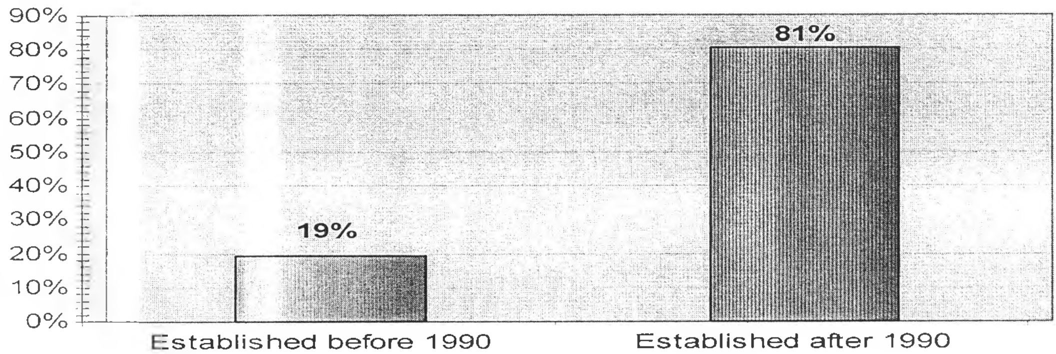


Source: Survey oil industry in Kenya, 2008

According to the results of the survey, as shown in figure 1, 52% of the companies covered were locally owned, 27% were jointly owned i.e. foreign and local while the remaining 21% were exclusively foreign. Shell, Chevron, Engen, Addax, Oil tanking, Gapco, Vitol have foreign ownerships. Total is owned by Total international and also quoted at Nairobi stock exchange (NSE). Kenol is the second oil company quoted at

NSE. Others are privately owned either with local shareholding or jointly with private foreign share subscription.

Figure 2: Period of establishment



Source: Survey oil industry in Kenya, 2008

From figure 2, 19% of the surveyed companies were established before 1990, while 81% were formed after 1990 which was after liberalisation of the petroleum sector. Therefore majority of the oil companies came into existence after liberalisation.

4.2 Capital assets among the oil firms

Fuel Depots or terminals are installations have been identified as key strategic resources for facilitation of product distribution. The installations cost a fortune to put up and maintain and the capital investment will range from 5 Million US Dollars for a small facility up to 15 Million US Dollars for a large facility. The location of these installations is as per market geographic market segmentation in the industry to act as distribution points for customers. The market geographic segments are Coast region, Nairobi and environs and Western Kenya. Most of the oil marketing companies with depots have them in Mombasa which serves as distribution centers for coast region and terminals for receiving bulk fuels from ocean vessels delivering fuel from Arab Gulf, India, Singapore and the Mediterranean. The same oil companies have depots in Nairobi. The National oil corporation has its only depot in Nairobi. Oil Tanking exclusively markets bitumen (the

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The western region markets distribution centers are owned by KPC in Nakuru, Kisumu and Eldoret. KPC does not market fuels but specializes in fuel storage and transportation via the pipeline and offers handling services for all the registered oil marketing companies in Kenya. Shell, Mobil (now Libya Oil), Chevron and Total own depots in western Kenya (Kisumu) however all are not operational since they were rendered operationally unviable when KPC opened up its terminal in the region and could offer bulk fuel handling at very low cost. All marketing oil depots were out of investments done prior to the liberalisation of the petroleum sector in 1994 with the exception of the Gapco storage facilities which were developed around 2004 in anticipation of shut down of the refinery. Hashi Empex depot is an acquisition from Shell; however, this depot was developed before liberalisation by Agip who sold it to Shell Kenya when it exited the market.

Table 1: Asset ownership

Company	Type of Capital Asset						Asset Type Count
	Fuel Depot	Retail Sites	Lubes Blend plant	Berges/ Trucks	Lube Depot	Equipment at Customer site	
Shell (K) Ltd	1	1	1	0	1	1	5
Chevron	1	1	1	0	1	1	5
Total (K) Ltd	1	1	0	0	1	1	4
National Oil	1	1	0	0	1	1	4
Libya Oil	0	1	1	0	1	1	4
Kobil	1	1	0	0	1	1	4
Kenol	1	1	0	0	1	1	4
Tecaflex	1	1	0	1	0	0	3
Hass	0	1	0	1	1	0	3
Hashi Empex	1	1	0	1	0	0	3
Royal (K) ltd	0	1	0	1	0	0	2
Oilcom	1	1	0	0	0	0	2
Jade Petroleum	0	1	0	1	0	0	2
Gapco	1	1	0	0	0	0	2
Engen	0	1	0	0	1	0	2
Triton	0	1	0	0	0	0	1
Petro Oil	0	1	0	0	0	0	1
Oil Tanking	1	0	0	0	0	0	1
Muloil	0	0	0	1	0	0	1
MGS (Mogas)	0	1	0	0	0	0	1
Mafuta Ltd	0	1	0	0	0	0	1
KPRL	1	0	0	0	0	0	1
KPC	1	0	0	0	0	0	1
Gulf	0	1	0	0	0	0	1
Global	0	0	0	1	0	0	1
Galana oil	0	1	0	0	0	0	1
Vitol	0	0	0	0	0	0	0
Intoil	0	0	0	0	0	0	0
Bakri (I) ltd	0	0	0	0	0	0	0
Al-leyl	0	0	0	0	0	0	0
Alba	0	0	0	0	0	0	0
Addax	0	0	0	0	0	0	0

Source: Survey oil industry in Kenya, 2008

From table 1, a score of 1 means company have one or more of the asset as per column heading and a score of 0 means the company have no asset as per column heading.

Depending on the standard of retail station, capital investment here may range from United States dollars (USD) 200,000 to USD 1,000,000 per site. Most oil marketing companies have at least one service station. However some like Shell, Kobil, Kenol, Chevron, Total, Libya Oil own more than 50 retail sites each, Galana, National Oil, Petro and Triton have between 10-30 sites each while the rest of the other oil marketing companies have less than ten retail sites.

Blend plants require a lot of capital investment in addition to technical expertise. As such, blend plant ownership is limited to a few firms which are Shell, Libya Oil and Chevron, each of which has a one blend plant located in Mombasa. Libya oil blend plant was an acquisition from Mobil in 2006 and technical expertise inherent from Mobil's former employees.

4.3 Collusion and cooperation

Table 2: Collusion

Response	Frequency	Percent
Yes	10	30%
No	23	70%
Total	33	100%

Source: Survey oil industry in Kenya, 2008

From above table 2 above, most firms did not consider colluding in their operations (70%). 30% considered merging in order to gain a competitive edge. Those who did not consider collusion said that they did not consider it a strategic option or were pursuant of individual goals. Most of the firms which practiced collusion are big firms with significant capital investments. Most of them cooperated with other oil companies in their operations to maximize on asset utilization. This is seen through offering hospitality contracts to accommodate the smaller oil marketing companies at their depots. Where as the smaller OMC's benefit from the depot utilization and pay a fee referred to as hospitality fees, the oil marketing company with the depot maximizes on return on asset. This form of co-operation is seen to be between a big firm and a small firm where rivalry in between is low. This is exhibited between hospitality contracts between Shell and

Engen, Shell and Gulf, Libya oil and Petro oil. However, some cooperation exists between two major firms both which own significant asset base. The goal here is to improve on efficiency of operations. Such cooperation is seen between Kobil, Total and Chevron. All these OMC's have individual depots in Mombasa and Nairobi but chose to shut down all but one and joined forces such that they all operated from one depot. Kobil and Total shut down their depots and entered into a joint venture with Chevron where all the three operated from the Chevron depot thereby benefiting from maximum asset utilization and also on sharing of management and technical competencies. Other form of co-operation is seen between oil companies with similar strategic resources and product markets where they synergies on the supply chain and have join nomination of vessels for LPG and base oils into Mombasa. The derived benefit is a reduced freight charges and other operational costs due to economies of scale. The firms which sought teaming up or cooperation considered each other as main competitors. It is notable that most of the cooperation is in the supply chain in trying to unlock value through synergies to create a cost competitive advantage over other firms not in the cooperation.

4.4 Competition

Table 3: Competitive league

Response	Frequency	Percentage
Yes	7	64%
No	4	36%
Total	11	100%

Source: Survey oil industry in Kenya, 2008

As per above table 3, 64% of the companies that wanted to merge considered their merge partners to be in the same operating league as them while the remaining 36% did not consider them to be in the same league as themselves. This is an important finding that helps in group classification as per the cognitive group theories. The reasons cited for the desire to team up were; assets, utilization, increase market coverage and obtain financing.

4.5 Business units in the oil industry and level of importance to oil firms

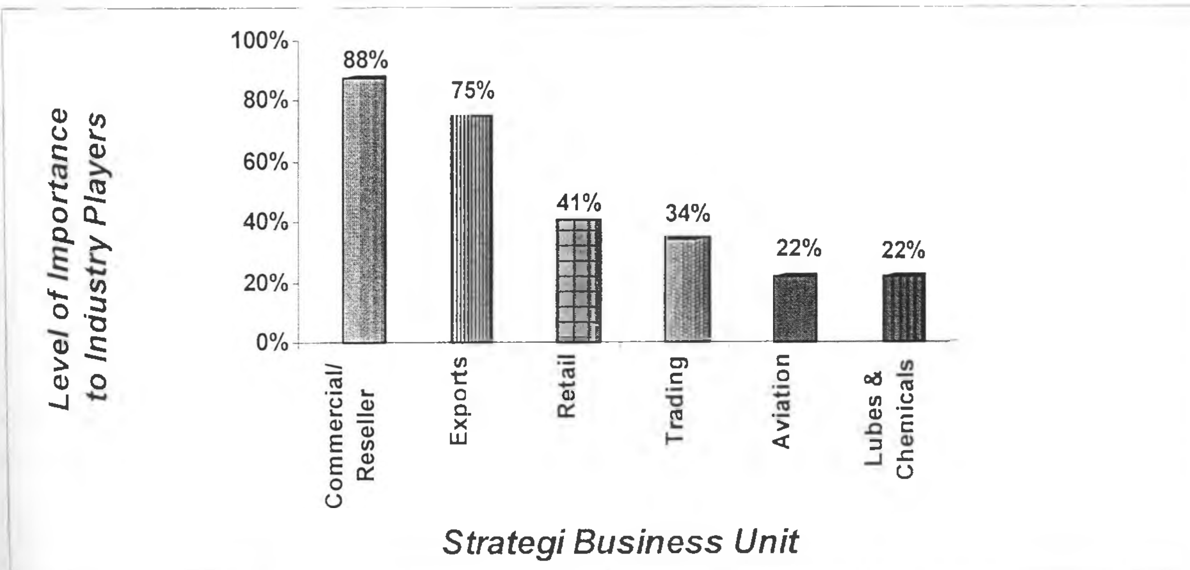
Table 4. Individual company data

Company	Business unit					
	Retail	Commercial/ Reseller	Trading	Exports	Aviation	Lubes and Chemicals
Kobil Petroleum	5	4	5	5	5	5
Kenya Oil -Kenol	5	4	5	5	5	5
Shell (K) Ltd	5	3	4	4	5	5
Chevron (K) Ltd	5	3	4	4	5	5
Total (K) Ltd	5	3	2	4	5	5
Libya Oil	5	4	1	2	3	5
Engen	5	3	1	3	1	4
National Oil	5	5	1	1	1	2
Petro Oil	5	4	1	3	1	1
Triton petroleum	4	5	5	3	1	1
Galana oil	3	3	4	5	1	1
Gulf Energy Ltd	3	3	5	3	1	1
Hass Petroleum	2	5	3	5	1	2
Gapco	2	5	5	3	1	1
MGS (Mogas)	2	5	1	5	1	2
Bakri (I) ltd	1	4	1	3	5	1
Tecaflex	1	5	1	5	1	1
Hashi Empex	1	5	1	5	1	1
Royal (K) ltd	1	5	1	5	1	1
Muloil	1	5	1	5	1	1
Addax	1	3	5	3	1	1
Oilcom (K) Ltd	1	5	1	3	1	1
Jade Petroleum	1	5	1	3	1	1
Mafuta Ltd	1	5	1	3	1	1
Global Petroleum	1	5	1	3	1	1
Vitol	1	1	5	1	1	1
Intoil	1	5	1	1	1	1
Oil Tanking	1	2	1	3	1	1
Al-leyl	1	3	1	1	1	1
Alba petroleum	1	3	1	1	1	1

Source: Survey oil industry in Kenya, 2008

From table 4, a score of 5 means that the company considers that business portfolio to be of high strategic importance to the company hence allocates more resources to that particular business portfolio. A score of 1 means that the company is not engaged in that business portfolio or if it is then that particular business portfolio gets the least resources allocated since firm considers that business unit to be of least importance to the firm.

Figure 3: Oil Industry data



Source: Survey oil industry in Kenya, 2008

According to the results of the survey as per figure 3 above, retail business was a dominant business portfolio within the company for Shell, Kenol, Kobil, Libya oil, Chevron, Petro oil, Total, Shell, Triton National oil and Engen. This represented 41% of the oil companies surveyed.

Most firms considered commercial and reseller business to be important in their firms except for KPC, KPRL, Vitol and Oil tanking. This sector is considered as an easy entry and is essentially price driven with no brand loyalty. The firms which actively pursued this business portfolio represented 88% of the surveyed firms. (Refer to table 4.5.2)

34% of the firms surveyed considered trading to be an important strategic business unit in their firms. Trading involves huge cash transactions ranging from USD 10 Million up to USD 60 million hence requires solid financial backing from international financing institutions like PNB Paribas bank. Only firms which demonstrate financial credibility are able to secure letter of credit financing from such banks. In addition, the trading business requires good contacts with reputable international traders. The combination of the two in addition to competencies required for logistics operations in the business portfolio makes the trade a reserve of few. Firms like Kobil, Kenol, Shell, Triton, Gulf, Addax and Gapco have found excellence in the trading business. The survey shows that majority of the oil firms in Kenya are active participants in the export business at 75%. Exports business has low entry barriers in that it is free of legislative restriction as per crude allocation quota done by ministry of energy for local selling. Aviation has fewer players being Kenol, Kobil, Shell, Total, Chevron, Libya oil and Bakri which represents 22% of the surveyed companies. This is also a preserve for the few due to the high capital requirement for aircraft loading hydrants, huge risk insurance premiums and the fierce competition on price and service offering by other multinational companies. The survey also showed that 22% of firms actively allocated resources to lubes and chemicals business portfolios. The active players in this sector are Kenol, Kobil, Shell, Total, Chevron, Libya oil and Engen. Lubes require patent rights on formulation which are either inherent from parent companies abroad or bought expensively. Development of new formulations through research and development is also expensive. This locks out many companies out of this league of business portfolio.

4.6 Barriers in meeting business objectives

4.6.1 Inefficient supply chain

Table 5: Inefficient supply chain.

Group	Mean
Global (k) ltd	5.00
Petrol (k) ltd	5.00
Hashi Empex	5.00
Galana oil	5.00
Vitol	5.00
Al-leyl	5.00
Kenya Shell	5.00
Oil Tanking	5.00
Gulf energy Ltd	4.00
Kobil	4.00
Kenol	4.00
Gapco	4.00
Riva oil	4.00
Royal (k) ltd	4.00
MGS (Mogas)	4.00
Total	3.00
National oil co (Nock)	3.00
Intoil	3.00
Mafuta	3.00
Muloil	3.00
Engen	3.00

Source: Survey oil industry in Kenya, 2008

According to the results of the survey as indicated in table 5, inefficient supply chain was a major hindrance to Global (k) ltd, Petrol (k) ltd, Hashi Empex, Galana oil, Vitol, Al-leyl, Kenya shell, Oil Tanking, Gulf energy Ltd, Kobil, Kenol, Gapco, Riva oil, Royal (k) ltd and MGS (Mogas) as it had a mean of above 4.00 in all of them. Total, National oil cooperation (Nock) Intoil, Mafuta, Muloil and Engen it was of moderate hindrance. In total 72% of the industry players across board find inefficient supply chin to be a big hindrance in meeting their business objectives.

4.6.2 Restrictive legislation

Table 6: Restrictive legislation.

Group	Mean
Global (k) ltd	5.00
Gulf energy Ltd	4.00
Intoil	4.00
Galana oil	3.00
Royal (k) ltd	3.00
Al-leyl	3.00
Kenya Shell	3.00

Source: Survey oil industry in Kenya, 2008

From table 6, Intoil, Gulf energy and Global petroleum were affected most by restrictive legislation while Galana oil, Royal, Al-leyl and Kenya Shell were moderately affected.

4.6.3 Competition

Table 7: Increased competition by new entrants.

Group	Mean
National oil co (Nock)	5.00
Petrol (k) ltd	5.00
Galana oil	5.00
Intoil	5.00
Vitol	5.00
Jade Petroleum	5.00
Kenya Shell	5.00
Triton petroleum Co. Ltd	5.00
Kobil	4.00
Kenol	4.00
Hashi empex	4.00
Riva oil	4.00
Royal (k) ltd	4.00
Al-leyl	4.00
Engen	4.00
Total	3.50
Gulf energy Ltd	3.00
Oilcom	3.00
Gapco	3.00
Muloil	3.00

Source: Survey oil industry in Kenya, 2008

Most of the companies in the oil industry were affected by increased competition from the entry of new players as shown in table 7 above. However, those companies that specialized in certain areas only did not seem to be affected by new entrants.

4.6.4 Operation and investment costs

Table 8: High investment and operational costs.

Group	Mean
Hashi Empex	5.00
Galana oil	5.00
Intoil	5.00
Mafuta	5.00
Riva oil	5.00
Royal (k) ltd	5.00
Al-leyl	5.00
Jade Petroleum	5.00
Muloil	5.00
Kenya Shell	5.00
Engen	5.00
Triton petroleum Co. Ltd	5.00
Oil tanking	5.00
MGS (Mogas)	5.00
Total	4.00
National oil co (Nock)	4.00
Kobil	4.00
Kenol	4.00
Gapco	4.00
Petrol (k) ltd	4.00
Gulf energy Ltd	3.00
Oilcom	3.00

Source: Survey oil industry in Kenya, 2008

From table 8 above, high investment and operation costs were a major hindrance to the oil industry companies since it had a mean of above 3.00 for most of the companies. This is as can be seen in the table above.

4.6.5 Financing

Table 9: Limited financing.

Group	Mean
National oil co (Nock)	5.00
Petrol (k) ltd	5.00
Oilcom	5.00
Galana oil	5.00
Intoil	5.00
Mafuta	5.00
Riva oil	5.00
Royal (k) ltd	5.00
Al-leyl	5.00
Muloil	5.00
Engen	5.00
Triton petroleum Co. Ltd	5.00
Mafuta	5.00
Vitol	5.00
Gapco	4.00
Jade Petroleum	4.00
Total	4.00
MGS (Mogas)	4.00
Gulf energy Ltd	3.00
Hashi Empex	3.00

Source: Survey oil industry in Kenya, 2008

From table 9 above, National oil led the pack of companies whose operations are hindered by limited financing but was also in the same class as Petrol (k) ltd Oilcom, Galana oil, Intoil, Mafuta, Riva oil, Royal (k) ltd, Al-leyl, Muloil, Engen, Triton petroleum Co. Ltd Vitol, and Mafuta as they had means above 5.00. Gapco, Jade Petroleum, Total Gulf energy Ltd, MGS (Mogas), Kenya Shell, Kenol, Hashi empex and Kobil were not very much affected by lack of financing probably because of their seasoned nature.

4.6.6 Economies of scale

Table 10: Diseconomies of scale.

Group	Mean
Global (k) ltd	5.00
Vitol	5.00
Riva oil	5.00
Royal (k) ltd	5.00
Al-leyl	5.00
Jade Petroleum	5.00
Engen	5.00
Hashi empex	4.00
Galana oil	4.00
Intoil	4.00
Mafuta	4.00
Triton petroleum Co Ltd	4.00
Gulf energy Ltd	3.00
National oil co (Nock)	3.00

Source: Survey oil industry in Kenya, 2008

Most of the mid size petroleum companies like Global (k) ltd, Vitol, Riva oil, Royal (K) Ltd, Al-leyl, Jade Petroleum, Engen admitted that diseconomies of scale was a major hindrance to their progress towards meeting business objectives (means above 5.00). This is as displayed in the above table 10. Most of the major multinationals were not adversely affected by this though due to their large scale of operations.

4.6.7 Pricing competition

Table 11: Price undercutting in the market.

Group	Mean
Global (k) ltd	5.00
Bakri	5.00
Petrol (k) ltd	5.00
Galana oil	5.00
Engen	5.00
National oil co (Nock)	4.00
Oilcom	4.00
Intoil	4.00
Mafuta	4.00
Vitol	4.00
Royal (k) ltd	4.00
Al-leyl	4.00
Jade Petroleum	4.00
Jade	4.00
MGS	3.00
Gulf energy Ltd	3.00
Hashi Empex	3.00
Riva oil	3.00
Muloil	3.00

Source: Survey oil industry in Kenya, 2008

Making reference to above table 11, the most affected companies in price undercutting by competitors were Bakri, Global (k) ltd, Engen, Petrol (k) ltd and Galana oil since their mean scores reached the highest value i.e.5.00 while the rest were either moderately affected or not affected at all.

4.6.8 Cost of attracting and maintaining skilled staff

Table 12: High cost of maintaining skilled staff.

Group	Mean
Intoil	4 00
Riva oil	4.00
Kobil	3.00
Kenol	3.00
Global (k) ltd	3.00
Gapco	3.00
Galana oil	3.00
Engen	3.00
Triton petroleum Co Ltd	3.00

Source: Survey oil industry in Kenya, 2008

From table 12 abov, high cost of staff was not a major hurdle in meeting business objectives since very few companies had a mean of above 4.00 in this group analysis.

4.6.9 Government policies

Table 13: Unpredictable government policies.

Group	Mean
Chevron (k) ltd	5.00
Galana oil	5.00
Kenya shell	5.00
Engen	5.00
MGS (Mogas)	5.00
Petrol (k) ltd	4.00
Mafuta	4.00
Libya oil	4.00
Riva oil	4.00
Royal (k) ltd	4.00
Addax	4.00
Jade Petroleum	4.00
Total	3.00

Source: Survey oil industry in Kenya, 2008

Results in table 13 shows that Chevron (K) ltd, Galana oil, Kenya shell, Engen, MGS (Mogas) Petrol (k)ltd, Mafuta, Vitol, Riva oil, Royal (k) ltd, Al-leyl and Jade Petroleum were the most affected by unpredictable government policies as they all had mean scores of above 4.00.

4.6.10 Ineffective regulations

Table 14: Ineffective regulations.

Group	Mean
Kenya shell	5.00
Engen	5.00
Chevron	5.00
Total (K) Ltd	3.00
Kenol	3.00
Gapco	3.00

Source: Survey oil industry in Kenya, 2008

Results shown in table 14 above indicates Kobil, Chevron, Engen, Kenya shell, Kenol, Gapco to be the companies which cited having been affected by ineffective legislation.

4.6.11 Inadequate internal capacity

Table 15: Inadequate internal capacity.

Group	Mean
Mafuta	5.00
Riva oil	5.00
Oilcom	3.00
Triton	3.00
Intoil	3.00
Al-leyl	3.00
Muloil	3.00
MGS (Mogas)	3.00

Source: Survey oil industry in Kenya, 2008

Inadequate internal capacity was a major hindrance to the pursuit of business objectives for Mafuta and Riva oil since they both had mean scores of above 5.00 while it was a moderate hindrance to Oilcom, Triton, Intoil, Al-leyl, Muloil and MGS (Mogas) with means of 3.00. This is as per results from table 15 above.

4.7 How oil firms responds to dynamics in the market

4.7.1 Marketing

Table 16: Aggressive marketing.

Group	Mean
Kobil	5.00
Chevron	5.00
Kenol	5.00
Kenya shell	5.00
Triton petroleum Co Ltd	5.00
Total	4.00
National oil co (Nock)	3.00
Galana oil	3.00

Source: Survey oil industry in Kenya, 2008

Table 16 above shows aggressive marketing in form of promotions, public relations and advertising was largely adopted as a strategic response by Kobil, Chevron, Kenol, Kenya Shell, Total and Triton Petroleum since they all had means of 5.00 while National Oil and Galana oil adopted it at moderate levels.

4.7.2 Cost cutting and reorganization

Table 17: Cost cutting and reorganization.

Group	Mean
National oil (NOCK)	5.00
Kobil	5.00
Kenol	5.00
Oilcom	5.00
Gapco	5.00
Kenya Shell	5.00
Oil Tanking	5.00
Global (k) ltd	4.00
Metro Petroleum	4.00
Al-leyl	4.00
Total	3.00
Chevron	3.00
Petrol (k) Ltd	3.00
Hashi Empex	3.00
Intoil	3.00
Riva oil	3.00
Royal (k) ltd	3.00
Muloil	3.00
Engen	3.00
Triton petroleum Co Ltd	3.00

Source: Survey oil industry in Kenya, 2008

From table 17 above, cost cutting measures and re-organization were adopted by most of the companies in order to remain competitive but it was most important to companies as National Oil, Kobil, Kenya Shell among others which had means of 4.00 and above while Petrol, Hashi Empex and Intoil were in the same league which moderately adopted cost cutting as a strategic response.

4.7.3 Asset maximization

Table 18: Return on asset maximization.

Group	Mean
National Oil Co (Nock)	5.00
Chevron	5.00
Alba petroleum	5.00
Kenya shell	5.00
Oil Tanking	5.00
Gapco	4.00
Total	3.00
Galana oil	3.00

Source: Survey oil industry in Kenya, 2008

The above table 18 shows firms considered asset maximization as an important market survival strategy.

4.7.4 Operational efficiency

Table 19: Operational efficiency.

Group	Mean
Oilcom	5.00
Gapco	5.00
Hashi Empex	5.00
Galana oil	5.00
Metro Petroleum	5.00
Vitol	5.00
Riva oil	5.00
Royal (k) ltd	5.00
Al-leyl	5.00
Muloil	5.00
Kenya shell	5.00
Oil Tanking	5.00
Triton petroleum Co Ltd	5.00
Total	4.00
Chevron	4.00
Alba petroleum	4.00
Bakri (I) ltd	4.00
Jade Petroleum	4.00
Engen	4.00
MGS (Mogas)	4.00
National oil co (Nock)	3.00
Global (k) ltd	3.00
Petrol (k) ltd	3.00

Source: Survey oil industry in Kenya, 2008

According to the results of the survey as per table 19, most of the companies adopted the strategy of increasing their operational efficiency as a strategic measure as most had means of above 3.00.

4.7.5 Vertical Integration

Table 20: Vertical Integration.

Group	Mean
Gapco	5.00
Hashi Empex	5.00
Galana oil	5.00
Vitol	5.00
Jade Petroleum	5.00
Muloil	5.00
National oil co (Nock)	4.00
Global (k) ltd	4.00
Metro Petroleum	4.00
Royal (k) ltd	4.00
MGS (Mogas)	4.00
Oilcom	3.00
Riva oil	3.00

Source: Survey oil industry in Kenya, 2008

From table 20 above, Gapco, Hashi Empex, Galana oil, Vitol, Muloil, and Jade Petroleum adopted vertical integration as an important strategy in order to deal with market dynamics. All these had means of 5.00. The rest of the companies displayed by the table above also applied vertical integration to a large extent.

4.7.6 Mergers and Acquisitions

Table 21: Mergers and acquisitions.

Group	Mean
Chevron	5.00
Gapco	5.00
Petrol (k) ltd	5.00
Mafuta	5.00
National oil co (Nock)	4.00
Kobil	4.00
Kenol	4.00
Engen	4.00

Source: Survey oil industry in Kenya, 2008

According to the results of survey as per table 21, business consolidation in terms of mergers and acquisitions was a very important strategy adopted by Chevron, Gapco, Petrol, National Oil, Kobil, Kenol and Engen since they all had means of 4.00-5.00.

4.7.7 Strategic alliance

Table 22: Strategic alliance.

Group	Mean
National oil co (Nock)	5.00
Kobil	5.00
Global (k) ltd	5.00
Mafuta	5.00
Metro Petroleum	5.00
Oil Tanking	5.00
Kenol	4.00
Petrol (k) ltd	4.00
Hashi empex	4.00
Al-leyl	4.00
Kenya shell	4.00
Engen	4.00
Triton petroleum Co Ltd	4.00
Total	3.36
Alba petroleum	3.00
Gapco	3.00
Intoil	3.00
Vitol	3.00
Riva oil	3.00
Bakri (I) ltd	3.00

Source: Survey oil industry in Kenya, 2008

From the table above it can clearly be seen that strategic alliance was a very popular strategy considered by the companies in the oil industry. More than half of the companies under survey had means of above 3.00 meaning that this was a largely applied strategy.

4.7.8 Market exit options

Table 23: Market exit options.

Group	Mean
Chevron	5.00
Petrol (k) ltd	5.00
Mafuta	5.00
Global (k) ltd	4.00
Metro Petroleum	4.00
Kenya shell	4.00
Intoil	3.00
Riva oil	3.00
Oil Tanking	3.00
Engen	3.00

Source: Survey oil industry in Kenya, 2008

From above table, Chevron led the pack of companies that considered exiting from the market due to unfavourable operating environment with a mean score of 5.00. Petrol and Mafuta were also in the same league as Chevron. Kenya Shell, Metro Petroleum and Global also strongly considered quitting from the market.

4.7.9 Product diversification

Table 24: Product diversification.

Group	Mean
Global (k) ltd	5.00
Bakri (I) ltd	5.00
Al-leyl	5.00
Riva oil	4.00
Triton petroleum Co Ltd	4.00
Kobil	3.00
Chevron	3.00
Oilcom	3.00
Intoil	3.00
Royal (k) ltd	3.00

Source: Survey oil industry in Kenya, 2008

From above table 24, Global, Bakri and Al-Leyl were the highly considered diversification of business with means of 5.00.

4.7.10 Selective market targeting

Table 25: Selective market targeting.

Group	Mean
Oil Tanking	5.00
Bakri (k) ltd	5.00
Vitol	4.00
Addax	4.00
Gulf Energy	4.00
Triton Petroleum Co Ltd	4.00
Chevron	3.00
Galana Oil	3.00
Riva Oil	3.00
Kenya Shell	3.00

Source: Survey oil industry in Kenya, 2008

From above table, the companies in the oil industry which highly valued selective targeting were Oil tanking and Bakri which had means of 5.00.

4.7.11 Image change and re-branding

Table 26: Image change and re-branding.

Group	Mean
National Oil Co (Nock)	5.00
Global (k) ltd	5.00
Oilcom	5.00
Mafuta	4.00
Kobil	3.00
Kenol	3.00
Petrol (k) ltd	3.00
Hashi Empex	3.00
Riva oil	3.00
Muloil	3.00
MGS (Mogas)	3.00
Triton Petroleum Co Ltd	3.00

Source: Survey oil industry in Kenya, 2008

Re-branding is seen from table 26 as key strategy adopted by National Oil, Global (K) and Oilcom with means of 5.00.

4.7.12 Recapitalization

Table 27: Recapitalization.

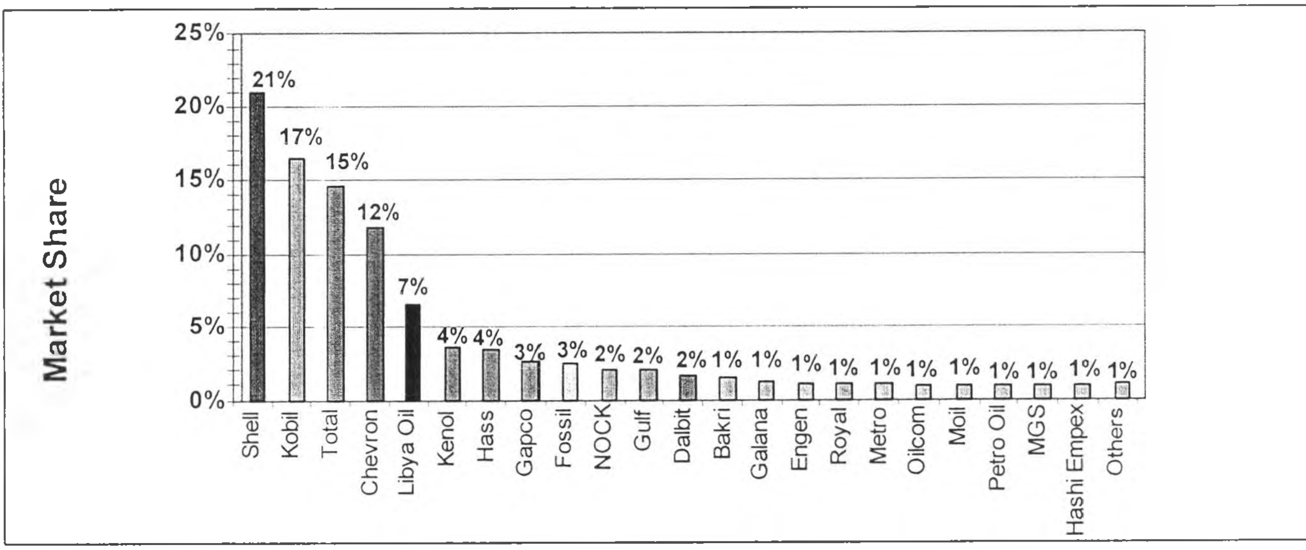
Group	Mean
Global (k) ltd	5.00
Galana oil	5.00
Intoil	5.00
Mafuta	5.00
Metro Petroleum	5.00
Riva oil	5.00
Royal (k) ltd	5.00
Al-leyl	5.00
Triton petroleum Co Ltd	5.00
National oil co (Nock)	4.00
Petrol (k) ltd	4.00
Hashi Empex	4.00
Bakri (I) ltd	4.00
Engen	4.00
MGS (Mogas)	4.00
Total	3.00
Kobil	3.00
Kenol	3.00
Oilcom	3.00
Gapco	3.00
Jade Petroleum	3.00
Oil Tanking	3.00

Source: Survey oil industry in Kenya, 2008

A major proportion of the companies surveyed as indicated in table 27 above, admitted to requiring additional capital injection since they had means of above 3.00 but Global (K) ltd, Galana oil, Intoil, Mafuta, Metro Petroleum, Riva oil, Royal (k) ltd and Al-leyl were the most dominant with means of 5.00.

4.8 Oil firms' market shares

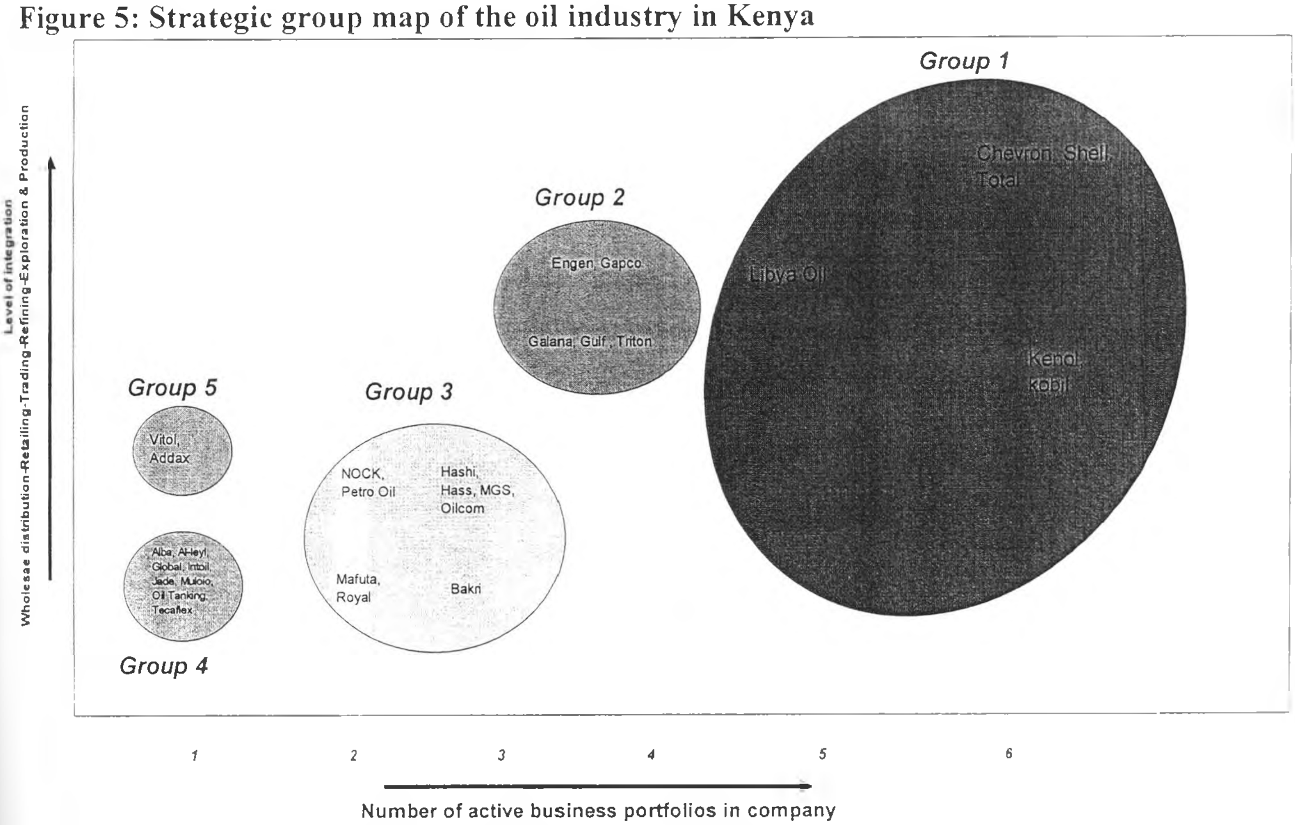
Figure 4: Oil firms market shares



Source: Ministry of Energy data, 2007

4.9 Strategic group map of the oil industry in Kenya

Figure 5: Strategic group map of the oil industry in Kenya



Source: Survey oil industry in Kenya, 2008

Two variables were used in mapping out the strategic groups in the oil industry as shown in figure 5. The vertical axis represents level of integration of the oil companies. In the oil industry, supply chain starts with exploration which results into drilling and production i.e getting of crude oil from the ground. This is followed by refining, shipping and trading. The down stream operations largely involve bulk distribution and retailing.

The horizontal axis represents the various business portfolios in which firms in the oil industry sub divides their business into strategic units namely exports, commercial, retail, aviation, lubes, chemical business and trading.

Five strategic groups emerged. The first group which includes Shell, Total, Libya oil, Kenol, Kobil and Chevron were found to be fully integrated firms having all the business portfolios active in their firms and participating in both upstream and down stream operations. This group of firms commands 74% market share hence are dominant and are referred to as 'the majors'. All these firms with the exception of Libya oil were in the pre-liberalisation period. Liby oil was formed after buyout of Mobil oil (K) which at the time of exit from the market qualified to be one of the major oil companies.

The second group comprised firms like Gapco, Engen, Triton, Gulf and Galana. These firms have successfully found inroads into business portfolios which were once a reserve for the majors. Gapco, Triton, Gulf and Galana has emerged as active traders in the market. Engen has competencies in lubes and chemicals business which easily rival established brands from the majors. This group commands 8% market share.

The third group is made up of firms whose ownership is largely local. These firms include Hashi, Hass, Oilcom, National oil (NOCK), Bakri, Royal, Mafuta and MGS. These firms have invested in supply infrastructures which include depots, barges and trucks. Their business portfolios centers on strategic units which are popular in the industry and includes retail, commercial, reseller and exports. This group commands a combined market share of 13%.

The forth group is made up of firms with low capital investment in their business. These firms concentrates in bulk distribution of petroleum products and their business portfolio largely includes reseller business. The number of firms here are the majority, however their combined market share is less that 5%. These firms are fresh in the market, most of them having joined the market in the past five years. They still lack financial base and are still on the learning curve of creating managerial and operational competencies in the oil industry.

The last group is formed of firms which operate on niche markets or specialize on one discipline. Vitol and Addax are good examples here of firms which focus on trading only. However, of exception is Vitol, which is inactive in the market.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Strategic groups in the oil industry in Kenya

Five strategic groups have been identified to exist in the oil industry in Kenya namely. This is consistent with Porter (1980) that industry are not homogenous but heterogeneous in which competitive strategic groups exists and are separated by mobility barriers. The group stability is volatile for firms existing in groups 2, group 3 and group 4. Group 5 is characterized by firms which formed before the liberalization period in 1994. These firms made their capital investments in supply infrastructure in the 1970s and 80s when the industry was characterized by fewer players hence enjoyed relatively high margins. The only exception here is Libya oil which bought out Mobil (K) in 2006. It is notable that through this acquisition, the firm inherited well maintained supply infrastructures and retail network. This strategic group besides having an elaborate supply infrastructure enjoys a huge network of retail service station with some having up to 120 service stations in the country. This huge retail network helps these firms unlock value in economies of scale. The fact that these firms are multinationals with foreign head offices, there is transfer of managerial and technical expertises through expatriate program that help these firms apply global solutions locally and cut on reinventing the wheel by making the learning curves shorter. As such, these firms have excelled in aviation, trading, lubes and chemicals business locking out the other firms by perfecting the on market intelligence, customer contracting and other forms of high level marketing. As such they have created mobility barriers to the other firms hence still continue to enjoy above industry profits. This is consistent with research by McGee and Thomas (1986) who identified three broad categories of mobility barriers that relates to market strategies, supply characteristics and firm characteristics. These firms include Shell Kenya, Libya oil, Total oil, Kenol, Kobil and Chevron. These firms have tended to impose on their market leadership positions by teaming up in consolidating efforts especially in supply chain. This has been seen through joint depot operations, joint importation of base oils and LPG. This group exhibits collaboration more than the other groups although they treat each other as mainstream competitors.

The second strategic group is made up of firms formed after liberalisation but have managed to excel in one or two areas which were a preserve for the group 1 members. The factors which has enabled these firms have this breakthrough varies from firm to firm. The ownership of these firms is predominantly foreign and are affiliates to firms which have made success in their countries of origin hence have been getting support in replicating the success here in Kenya. For example, Engen is a market leader in South Africa, Namibia and Botswana. Engen has therefore borrowed from competencies developed in these countries and adapted them to the local market therefore making in roads into the lubes and chemicals business. Gapco Kenya was bought by Reliance industries of India who have the largest refinery in the world operating from Sikha India. India being in the trade region of Arab Gulf where Kenya sources fuel from has made Gapco excel in bulk fuel trade into the port of Mombasa by riding on its shareholding company, Reliance industries. Gulf Energy has affiliation with rich investors from the Saudi Arabia and hence it is able to get financial backing and reliable contacts that enable them excel in the trading business which requires huge finance backing and reputable trade contacts. Galana oil has its key shareholder being successful in overseas trading hence that affiliation has boosted its success in establishing trading as a key strategic business unit in the firm. It is important to note that the biggest undoing for these firms to get into group 1 strategic group has been diseconomies of scale due to their small sizes. The firms in this strategic group command a market share of 8%.

The third group is made up of firms whose ownership is largely local and commands a market share of 13% in the oil industry in Kenya. The firms do not have the advantage of affiliation with successful parent companies outside the country hence have gone through the pains of an extended leaning curve period. These firms include Hashi, Hass, Oilcom, National oil (NOCK), Bakri, Royal, Mafuta and MGS. They have tried to get inroads into oil industry skills and operational competencies by poaching staff from the major oil companies and remunerating them better. Their key success factors have been their entrepreneurial skills and abilities which enabled them to form the companies in the first place. Still considered as new entrants they are slowly developing internal capacities with objective of gaining closer grounds to the Majors. Some of these have been seen through the acquisition of the Agip depots in Mombasa by Hashi Empex and the Nairobi Agip depot by Oilcom. Others like Hass petroleum has made investments in transport business in an effort to improve their business portfolios and diversify on business risks arising from increased competition. These firms have made moderate capital investments in the retail business but the bulk of their earnings come from the highly volatile markets and highly cluttered markets of export and reseller which is an everybody's market in the oil industry due to their low entry barriers. The distinguishing feature from the fourth group is the relative investment in retail which is not in the fourth group. A notable distinguishing feature which creates mobility barriers in groups 1, 2 and 3 is the brand reputation. Group 1 through advertising and aggressive marketing have created strong brands for themselves e.g. Shell markets itself as offering extra value through unleaded extra and diesel extra. Chevron positions itself as a brand that drives motorists. Total has exceptional service at their forecourt. Group 2 retail brands are not emotionally associated with by customers but have made an impact by maintaining neat and clean sites with average offering. Group 3 site are usually basic site for getting volumes through to customers. They have less focus on health safety and environment aspects.

The forth group is made up of firms with low capital investment in their business. These firms concentrates in bulk distribution of petroleum products and their business portfolio largely includes reseller business. The number of firms here are the majority, however their combined market share is less that 5%. These firms are fresh in the market, most of them having joined the market in the past five years. They still lack financial base and are still on the learning curve of creating managerial and operational competencies in the oil industry. Their major market which is reselling is a low entry market hence it is the strategic grouping with majority of the firms. New entrants starting out with little experience make their entry into the oil industry by positioning themselves in this group. The few firms which develop internal capacity to deal with the market environment result in moving up to group 3 and onward to group 2.

The last group is formed of firms which operate on niche markets or specialize on one discipline. Vitol and Addax are good examples here of firms which focus on trading only. However, of exception is Vitol, which is inactive in the market. The strategic group mapping also ruled out classifying KPC and KPRL as oil companies since they only offer monopolistic services the oil industry players. KPC owns the only bonded bulk receiving and storage facility in addition to operating the pipeline in the country. KPC considers its competitors to be transport companies hence analyses it's positioning in the transport industry while formulating its strategic objectives. KPRL on the other hand refines crude on behalf of the oil companies. Its shareholding includes oil companies operating in Kenya made of Shell, BP, Chevron and the government. It's existence solely rely on government's directive requiring all oil companies to process crude oil at KPRL regardless the competitiveness of the option.

5.2 Strategic options adopted in order to deal with market dynamics

Due to the competitive nature of the oil industry in Kenya, the industry players adopt several strategies in order to remain competitive. The strategies are generic in nature for the various strategic groups. The group 1 companies control the market share and strategic moves are geared towards protecting their market. After the liberalization in 1994, several new entrants joined the market hence the profit margins were eroded. Due to similar supply chain setup and customer base, these firms have found synergies amongst themselves in supply chain by pulling resources in depot operations as seen between Total, Libya oil and Chevron. Same firms in addition to Shell have consolidated efforts in bringing in joint cargoes of base oil, LPG and fuel oil in an effort to cut on vessel demurrage and freight charges. Another strategy has been through aggressive marketing through advertising and promotions. Shell positions itself and enhances its brand as offering a unique product to customer through product differentiation in their unleaded petrol extra and diesel extra. Total promotes itself as environmental sensitive company through their total eco-campaign. Besides that, their forecourt offering is broad in non-fuel service packages like the chicken inn fast foods, pharmacy, car wash. Libya oil adopts the same forecourt diversification strategy with its successful launch of the Galitos fast food and Pizza inn. Not only are these firm diversifying into forecourt non-foods items but are riding on their strong brand identity to partner with household brands like Kenchic, Nandos and Standard Chartered bank for automated cash machines. These firms are positioning themselves in eyes of the retailers as convenience centers for cash withdrawals, car wash, quick lunch, coffee, pharmacy. Another form of marketing adopted by these firms includes use of fuel card systems that make use of good information network system and service support from the wide network of retail stations. This form of marketing helps lock in high end customers and it becomes difficult to be replicated by other firms who copy marketing strategies of the major firms. This group focuses on enhancing their brand and emotions it generates onto the customers.

The group 2 firms' scope of geographic cover is limited. Their brands although having good reputation, do not have a national appeal. Their challenge in the market environment is gaining market shares. Since these firms are not represented in all the business portfolios, their strategy is diversification into new strategic business units which have fewer players such as aviation, lubes and chemicals and trading. Triton which started off as a distribution company grew itself into trading, then retail and now has successfully launched their LPG gas. The sizes of these firms are also limiting and as such organic growth does not appear to be the best viable option in getting significant market shares. Due to pressure to grow from their principal foreign holding companies, they are constantly looking for acquisitions. Engen and gapco have been in the market for new acquisitions. These firms are also following suit in having copycat moves in their marketing strategies that will give them identity close to the major firms which are seen to be the core firms. Such strategies involve having similar offering at retail service station as the majors. By so doing and getting close identity to the majors, they stand to benefit from being recognized as mainstream firms hence have better reference terms when dealing with preferred partners and high end customers.

Group 3 firms having made a successful entry into the market are looking at cost rationalization and improving on their competencies. As such, these firms are targeting professionals from the bigger firms in an effort of transferring and borrowing skills. These firms are also looking into diversification into retail network since this is area they are weak on. Their brands do not stand out but use them to drive volumes to push up their revenues. Short to mid term objectives appear to be their objectives. These firms are strong on bulk fuel business and distributions hence are acquiring capital assets that will safeguard this position and ensure prosperity. For example Oilcom and Hashi Empex acquired Agip depots in Mombasa and Nairobi where the majors have dominated in depot operations. Hass on the other hand has invested on road tankers in an effort to boost their export market position by controlling transport freights hence are able to offer subsidized prices by foregoing transport margins otherwise enjoyed by outsourced transporters. This puts them on almost equal footing with the major oil companies on the export market.

Group four firms are mostly in the resellers market and are highly affected by price wars. The high cost of inventory due to high crude prices has highly affected their operations. Since most do not have consistent customers and are in for short term profits, they scale up or down their operations since main costs is made up of head office staff costs and variable operational costs which depend on volume of business. Some of these firms have sought supply contracts with the bigger firms in order to reduce on the burden of the cost of financing. Group 5 companies are focusing on niche portfolios which they try to advance on their competencies. Addax specializes in trading and has focused on improving its competencies here. However, firms like gapco and Gulf have made in roads into this niche and addax has reacted by having long term contracts with customers in order to guarantee their business and lock out the new firms from finding inroads. It has also identified the greatest need in their customers (which are other oil companies) as being need for product financing. As such, they extend credit terms through letter of credit and bank guarantee on bill of lading as bait in wooing the customers to remaining on contract. Addax has also invested in shipping vessels in an effort to have more control on the product prices and delivery schedules at the port.

5.3 Strategic group mobility barriers in the oil industry in Kenya

The mobility barriers keeping the strategic groups apart are weakening and some firms are finding inroads into the next strategic groups. Liberalisation opened up for competition by lowering the legislative barriers that existed before. New firms could not operate on same league as the majors due to lack of competencies in operation, technical skills and management. These barriers have been slowly eroding with time and the group boundaries are weakening. Some of the major firms have done long term projections and realized this. As such they have opted to pull out in light of diminishing margins. Pull out of these majors give room for upgrade of the more aggressive smaller firms by creating a vacuum that quickly gets filled up by the smaller firms that are highly entrepreneurial and quicker in decision making. The government policy to force all oil marketers to have joint industry imports removed the supply logistics barrier that gave the majors an edge over the other oil firms. This allowed for infiltration of numerous firms into the oil business, some which through aping were able to learn and develop competencies that brought them closer to the oil majors. The future trend predicts phase out of the group 1 firms and replacing them with the group 2 firms. The groups 3 and group 4 are likely to evolve into one group as group 4 firms invest more in retail and upgrade their service stations. It is worth noting that the government through its environmental enforcing arm National environmental management agency (NEMA) is putting in stringent environmental laws which as at now are being met by most of the group 1 and 2 firms. It is highly likely that the newer firms getting into retail and depot operations especially in group 3 and 4 firms will find such laws not conducive for their operations hence may choose to close shop and concentrate on. The country is generally moving towards tighter regulations enforced by government agencies. One of these agencies is the energy regulatory board (ERB) which has been charged with regulating the energy sector. Therefore the roles of NEMA and ERB will play a big role in erecting legislative mobility barrier among the existing groups by raising the bar for minimum standards and tightening on controls through thorough and intelligent policing. The crude prices are also on steep increase and financing is becoming a critical element in survival of business. Due to diminishing profit margins in the oil industry, a sizeable number of firms highly likely to be in group 4 will eventually opt out in favour of doing other businesses that may be thriving at the moment like real estate. This is in agreement with Martens (1988) that strategic group structure is not a very stable phenomenon and that group boundaries are highly dynamic for strategic groups which tend to be closer to each other.

5.4 Conclusion

Although the oil industry in Kenya has many locally owned firms, the market is domineered by six foreign multinationals which controls over 70% of the market. There are six established strategic business units (SBUs) in the oil industry all having varying levels of entry. The easy entry SBU are exports, commercial and reseller sectors. This is so because no major capital investment is required to start operations in these fields. The fact that KPC offers bulk handling facilities indiscriminately has helped smaller firms gain entry in this sector hence majority of firms have these SBUs within their organisations. This sector is cluttered with many oil companies and reflects a perfect market profile where ruling prices are factors of demand and supply. Retail sector has higher entry barriers but due to ineffective legal controls, some firms have managed to establish themselves here. However pricing market structure reflects oligopolistic market tendencies where the major oil companies set pace on prices and service standards. The numbers of players are few. The entry barriers are highest in aviation, trading, lubes and chemicals where high capital investment is required in equipment, technical competence and high level marketing is practiced. Brand strength and heavy advertising by major oil companies has helped in maintaining competitive edge over the smaller players. The players in these areas are fewer hence profit potential is rated highest in these sectors. Therefore, the oil industry can be classified into five strategic groups as outlined earlier in this chapter. The major oil companies are exiting the local market as competition increases and firms move closer in to their strategic group structures. The other smaller firms and new entrants are developing competencies gradually and are therefore moving closer to the mainstream group structures. However their small market shares are limiting their potentials and hence are constantly looking for acquisitions since organic growth is slow in realizing significant market share gains. With increased legislations, volatile crude prices and financing challenges, the group boundaries are constantly moving as new barriers to movement evolve. The best potential lies with firms which are able to align their internal capacity to meet the new challenges in the market environment.

5.5 Recommendations

We recommend that the government should be keen on the formulation and implementation of its policies as regards the oil industry as some of its policies are hurting constructive growth and development of the oil industry since they are creating two level playing fields of those firms who meet legal requirements and others who operate without the minimum legal requirements especially on environmental matters. Small market players should opt for strategic alliances in order to enjoy economies of scale and reap optimal return on their resources.

The oil supply chain should be streamlined in order to ensure efficiency and prompt delivery of the products to the end consumers. The government should ensure that the cost of investing and operating businesses in Kenya are reasonable. There should be enough sources of financing available for the oil industry player which in turn translates to investment opportunities for the financial institutions. We further recommend that specialization should be considered as a strategy in order to avoid stiff competition which erodes firm's profits.

5.6 Limitation of the study

During targeting of respondents in the survey, it was realized that some firms hd their operations dormant despite being registered. These firms included Rivapet, South west, Pentoil, Oilmark Moco, Jovenna, KAH, Fuelex and Palmoil. It was therefore difficult to get in touch with appropriate respondents hence; this research could not establish the strategic direction and position of these firms in the oil industry in Kenya.

Due to competitive rivalry amongst oil firms, some firms did not give full disclosure of information sought due to fears that their strategic intents may be exposed and used by competition. As such, secondary data from context analysis of industry publications was used to supplement for information and may not represent accurately the intended strategy of the firm.

5.7 Suggestion for further studies

Some new entry firms have been found to make successful entry into line of business that was thought to be a reserve of the major oil companies. Further studies are recommended in analysing the key success factors exhibited by these firms.

It is further recommended that research be done to find out why firms set up but remain dormant in the oil industry such as seen in this chapter. The research will be helpful if their vision are analysed to establish whether there is strategic failure within these firms.

This research does not explore into depth the various forms of competitive rivalry, intra group and inter group rivalry, amongst the groups. Therefore further research is recommended to evaluate the influence of intragroup rivalry in individual firm strategies as well as intergroup rivalry in individual firm strategies. Further research is recommended to establish if the different firms within the groups apply generic strategies or are the strategies firm specific.

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APPENDICE

Appendix (1): Questionnaire

Section A: Background Information

1. Name of your company ....

2. When was your company established in Kenya [..............................]

3. What is the nature of ownership?

- 100% local [ ] 100% Foreign [ ] Local& Foreign [ ]

Section B: Nature of Strategic Groups

4. Please indicate if your firm has capital investment in the following areas in Kenya. (Tick *where appropriate*)

a. Fuel Depot / Terminal [ ]
b. Retail Outlets [ ]
c. Transport Vehicles (Road tankers/ rail wagons/ berges) [ ]
d. Lubes blend plant [ ]
e. Lubes and special products depot [ ]
f. Equipment at customer sites [ ]
g. Others (Specify)... [ ]

5. Name at least 3 companies within the oil industry that you consider to be direct competitors to your firm.

a. ....
b. ....
c. ....
d. .... (Other/s) ....

6. Which business unit (SBU) is/are dominant in your firm in relation to other units within your organization in terms of resource allocation and strategic importance to the firm. (Please rank them in order of dominance: 5 being the most dominant and 1 being the least dominant)

	Most Dominant 5	*4*	*3*	*Least Dominant* 2	*1*
a. Retail	[ ]	[ ]	[ ]	[ ]	[ ]
b. Commercial & Reseller	[ ]	[ ]	[ ]	[ ]	[ ]
c. Trading	[ ]	[ ]	[ ]	[ ]	[ ]
d. Exports	[ ]	[ ]	[ ]	[ ]	[ ]
e. Aviation	[ ]	[ ]	[ ]	[ ]	[ ]
f. Lubes and Chemicals	[ ]	[ ]	[ ]	[ ]	[ ]
g. Other,(specify)................	[ ]	[ ]	[ ]	[ ]	[ ]

7. Does your firm seek out to improve it's competency by joining forces with other firms?

- Yes [ ] No [ ]

8. If answer to question 7 is No, then what has influenced your firm not to seek collaboration as an alternative to improving its competency?..................... ... ...

....

9. If answer to question 7 is yes, then do you consider the oil company(s) in collaboration of same competitive league as your company?

- Yes [ ] No [ ]

10. What was your company's motivation for the joint undertaking (Tick as appropriate?)

a. Maximise on asset utilisation [ ]
b. Assistance to access business information [ ]
c. To benefit from consultancy service in area such as quality management [ ]
d. Pulling resources for operational efficiency [ ]
e. Other, (Specify)reasons................................ [ ]

11. Please rank the below items in the order level of hindrance to your firm's progress in meeting business objectives. (Where 5 is greatest hindrance to meeting business objective and 1 is of least hindrance)

	Greatest Hindrance 5	4	3	2	*Least Hindrance* 1
a. Cost of attracting /maintaining skilled staff	[ ]	[ ]	[ ]	[ ]	[ ]
b. Increased competition by new entrants	[ ]	[ ]	[ ]	[ ]	[ ]
c. High investment & operational costs	[ ]	[ ]	[ ]	[ ]	[ ]
d. Limited financing	[ ]	[ ]	[ ]	[ ]	[ ]
e. Substitute products	[ ]	[ ]	[ ]	[ ]	[ ]
f. Unpredictable government policies	[ ]	[ ]	[ ]	[ ]	[ ]
g. Environmental legislation	[ ]	[ ]	[ ]	[ ]	[ ]
h. Inefficient supply chain	[ ]	[ ]	[ ]	[ ]	[ ]
i. Restrictive legislation	[ ]	[ ]	[ ]	[ ]	[ ]
j. Diseconomies of scale	[ ]	[ ]	[ ]	[ ]	[ ]
k. Price under cutting in the market	[ ]	[ ]	[ ]	[ ]	[ ]
l. Ineffective regulations	[ ]	[ ]	[ ]	[ ]	[ ]
m. Inadequate internal capacity	[ ]	[ ]	[ ]	[ ]	[ ]
n. Other (Please specify)......................	[ ]	[ ]	[ ]	[ ]	[ ]

12. How important has each of the following strategic responses been to your firm in realigning itself to dealing with market dynamics. (Please rank them in order of importance: 5 being the most important and 1 being the least important)

Strategic responses	**1**	**2**	**3**	**4**	**5**
a. Aggressive marketing (Promotions, Public relations, advertising)					
b. Cost cutting/ re-organization					
c. Return on asset maximisation					
d. Operational efficiency					
e. Vertical integration					
f. Mergers and acquisitions					
g. Strategic alliance					
h. Market exit options					
i. Product diversification					
j. Selective market targeting – Market rationalisation					
k. Image change/ rebranding					
l. Recapitalisation- (cash injection through equity or leverage)					
m. Other (please specify)					

13. Outline any area of core competency that makes your firm standout from the others...

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THANK YOU FOR YOUR TIME

Appendix (2): List of Oil Firms in Kenya

1. ADDAX
2. ALBA
3. AL-LEYL
4. ANNEL
5. BAHRIYA
6. BAKRI
7. CHEVRON
8. DALBIT
9. ENGEN
10. FOSSIL
11. FUELEX
12. GALANA
13. GAPCO
14. GLOBAL
15. GULF
16. HASHI
17. HASS
18. INTOIL
19. JADE
20. JOVENNA
21. KAH
22. KENOL
23. KOBIL
24. MAFUTA
25. METRO
26. MGS INTL
27. MOCO
28. MOIL
29. MULOIL
30. NOCK

31. OILCOM
32. OILIBYA
33. OILMARK
34. PALMOIL
35. PENTOIL
36. PETRO
37. RIVA
38. RIVAPET
39. ROYAL
40. SHELL
41. SOUTH WEST
42. TOTAL
43. TRANSOIL
44. TRITON
45. VITOL
46. OIL TANKING
47. KPRL