RESPONSES TO LIBERALIZATION OF THE ECONOMY BY NATIONAL OIL CORPORATION OF KENYA

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DECLARATION

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

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Date: 26th September 2005

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

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DEDICATION

To my dear mother,
Sarah Belyon and the entire Belyons' family.

ACKNOWLEDGMENT

My utmost thanksgiving goes to the Almighty God, my creator, provider and saviour without whom the course would have been meaningless. Thanks for his mercies that are new every morning.

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MAY GOD BLESS YOU

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ABSTRACT

The Petroleum industry in Kenya has undergone changes that have tremendously affected the state of competition in the industry. The most recent fundamental development in the industry was its liberalization in October 1994 that led to the entry of new companies. The study sought to determine how National Oil Corporation of Kenya (NOCK) has responded to the liberalization.

The study was based on primary data, which was collected using a questionnaire and personal interviews. The data obtained was then analysed and interpreted using content analysis.

The findings of this study revealed a number of responses that National Oil Corporation of Kenya has used to counter the effects of liberalization. In responding to liberalization, the Corporation has used a combination of strategies, which includes strategic planning, capital injection, capacity building, organizational structure, building of retail outlets, and adopting technological change.

Six out of the identified eight executives were interviewed and in view of the findings, a few recommendations have been suggested. Firstly, NOCK should lobby for reasonable autonomy from the government of Kenya as by reason of being a state corporation it is exposed to bureaucracies making it difficult to respond a changing environment.

Secondly, the Corporation evidently needs to consolidate its strengths and capabilities in order to develop a unique identity that can work towards rebuilding and enhancing a strong corporate image.

CHAPTER ONE

INTRODUCTION

1.0 Background

Since the beginning of the 1990's, the Government of Kenya has made significant strides in the implementation of economic reform measures necessary to stabilise the economy, restore sustainable economic growth and enhance external and domestic competitiveness. One such development is liberalization.

According to Edward (1986), liberalization primarily involves a movement towards less control of factors of production, financial, commodity markets and less of Government control.

The objective of liberalization was to create a more competitive environment, which would improve the availability of petroleum products and lower prices in the long – term (Government of Kenya: Economic reformed for 1997- 2001).

The Oil industry plays a significant role in the economy, since petroleum fuel is a major source of energy in Kenya. It is one of the few industries that have had no history of a monopoly, but instead the industry is oligopolistic in nature characterised by price wars.

The industry is currently comprised of the major international oil companies and indigenous oil companies. The majors are Shell& BP Kenya Ltd, Caltex Oil Kenya Ltd, Kenol/Kobil, Mobil Oil Kenya Ltd, and Total Kenya Ltd. Indigenous Oil companies on the other hand include: -National Oil Corporation of Kenya (NOCK), Triton Petroleum, Galana, Metro Petroleum, Fuelex, and Dalbit Petroleum just to mention but a few. Except NOCK, all the indigenous oil companies entered the market after liberalization.

With the advent of liberalization in October 1994, the industry has witnessed unprecedented influx of companies. This has led to stiff competition and the major international oil companies have lost a significant part of the market share.

According to the ministry of energy 1st Quarter report of 2005, the industry's market share is as follows: -

Company	Total	Shell & BP	Kenol/Kobil	Mobil	Caltex	Nock	Others
Market Share	24%	22%	21%	11%	9%	3%	10%

Source: Ministry of energy Quarterly Reports

According to Ansoff, (1987), Strategic responses involve changes in a firm's strategic behaviour to assure success in transforming future environment. They are the choices that firms make in an attempt to address the key issue that arise from internal and external analysis of the firm and its business environment. Hofer and Schendel, (1978) observed that for firms to be effective and hence successful, they should respond to changes that occur in their respective environments.

1.1 Challenges facing Petroleum Industry

The petroleum companies in Kenya are facing great challenges most of which are blamed on cutthroat competition from new entrants. The sub-sector in Kenya has mainly been influenced by the change in legal and regulatory framework that occurred after it was deregulated in October 1994.This led to the increase in the number of new firms into the industry and has since intensified competition at the retailing level. (Abeka, 1996; Wamathu, 1999; Murage, 2001)

A review of literature on the industry indicates that some of the challenges that players in the petroleum industry in Kenya experience include the issue of large capital outlay, heavy taxation, Government regulation and industry malpractices such as adulteration.

Kim and Mauborgne (1999) thought that competing head to head can be cut throat, especially when markets are flat or growing slowly, which is the scenario in the Kenya oil industry.

After deregulation of the industry in October 1994, some industry players felt the need to have an organised body, which could liase with the government over industry policy issues or jointly articulate the industry's concerns. This led to the formation of Petroleum Institute of East Africa (PIEA). This institute was incorporated in April 1999 and commenced its operations in July 1999 (Institute first annual report). PIEA is a petroleum industry forum for all marketers, both international, as well as professionals with interest for growth and stability of oil and gas industry in East Africa.

The liberalization of petroleum sector has resulted in the opening of filling stations in most parts of the country, especially by the independent petroleum dealers. This has consequently resulted in competitive prices and more so a never- ending price under cutting. It should be pointed out that pricing has become the central competition element in the Kenyan petroleum market. Other important factors like quality of products and service have taken back stage.

1.2 History of NOCK

NOCK has now been in existence for twenty-four years. The company was incorporated in April 1981 under the Companies Act Cap 486, located at Eland House Kapiti Road, South C and charged with participation in all aspects of the petroleum industry. The company has a 100% Kenya Government shareholding.

Before liberalization, the industry's business environment was regulated in this regard; the government through National Oil Corporation of Kenya (NOCK), set prices and the industry players were expected to be compliant.

The formation of NOCK was precipitated by the oil crisis of the 1970's (1973/74 and 1979/80) and the correspondent supply disruptions and price hikes which resulted in the country's oil bill comprising of almost one third of the total value of imports and therefore making petroleum the largest single drain of Kenya's foreign exchange earnings. In the "national" interest it was 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.

NOCK had a strategic advantage arising from the perceived need to ensure that the country's strategic interests were protected in the event that the oil companies were not able to provide crude oil or should Kenya be the recipient of some concession "Government to Government oil". It was also to develop an understanding of how international oil markets functioned. NOCK became operational in 1984. Initial activities mainly consisted of: -

i. Overseeing the fulfillment of petroleum exploration companies' obligations in accordance with contracts signed with the Kenya Government.

ii. In addition to its function in petroleum products, NOCK's was mandated to manage the country's exploration activities by providing and disseminating exploration data in form of reports and promoting the same to oil companies in order to attract them to do exploration in Kenya. It was also to manage on behalf of the government storage and disposal of government's share of oil after discovery.

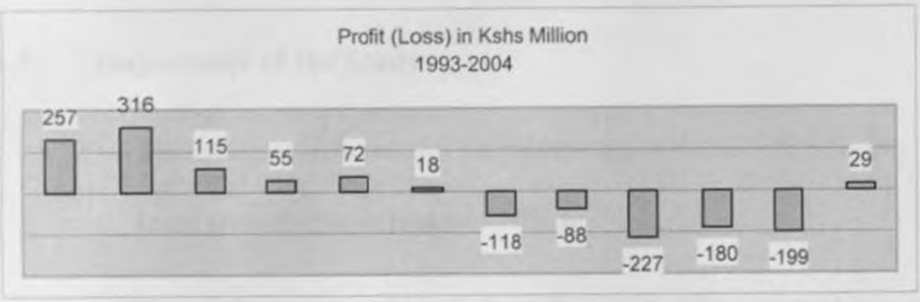
NOCK started downstream activities in March 1988 with the importation of the first crude oil cargo. This was in fulfillment of the government mandate for NOCK to supply 30% of the country's petroleum requirements. These supplies were sold to major oil marketers at a small margin in bulk prior to processing. One of the other major roles at this time was to act as an advisor of the government on pricing and other related oil policies. NOCK's experience in procurement prevented the award of unjustified price increase to the oil marketers. In some instances, NOCK undertook to bring in all the country's petroleum crude and finished products requirements when private companies declined to do so in order to pressurize the government to concede on their demands for price increases. This was especially evident during the 1989/90 Gulf War when NOCK's imports sustained the country for about six weeks.

Since October 1994 when the oil industry was deregulated, the mandate to import 30% of the country's crude oil requirements ceased and NOCK has been marketing petroleum products to the final consumers. In 1997, NOCK moved on to retail market. NOCK acquired ten (10) petrol station sites in 1995 - 1997 to build retail outlets. Out of these six have been developed to fully-fledged stations.

1.3 Statement of the Problem

Following liberalization of the Oil industry in 1994, there has been intense competition characterised by differentiation of products and services.

NOCK's profitability levels were higher before liberalization. However, it's profitability started declining with the liberalization policy as indicated below: -



Source: NOCK Yearly Audited Accounts-Kenya National Audit Office (1993-2004)

This research intends to determine how NOCK has responded to liberalization.

Some of the studies done in the past concerning the Oil industry includes: -

Isaboke (2001) addressed the issue of strategic responses by major Oil companies in Kenya to the threat of new entrants, in his findings he found that the major international oil companies have made a number of responses to the threat of new entry in the industry. Murage, (2001), in her study of the strategies used by the Kenya independent petroleum dealers association (KIPEDA) found that members of this group have similarities in terms of attributes such as competitive strategies used and challenges.

Chepkwony, (2001) in his study of responses of petroleum companies to increased competition concluded that the oil industry players have made various strategic changes in their long- term plans. These findings were supported by (Abeka, 1996,Wamathu, 1999). None of these studies have focussed on the indigenous Oil Company that was in existence before liberalization.

1.4 Objectives of the Study

i. To determine how NOCK has responded to liberalization

1.5 Importance of the Study

i. This study will be useful for other organisations that will use it and hopefully learn from the experience of NOCK.

ii. To academicians, this study will add to the currently existing knowledge particularly with respect to the impact of liberalization on the petroleum industry in Kenya.

iii. It is hoped that it will stimulate further research in other areas of strategy. It has been demonstrated earlier that knowledge of any description is often useful.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategy

Johnson and Scholes, (2001) view strategy as the direction and scope of the organization over the long term, which achieves advantage for the organization through its configuration of resources within the changing environment to meet the needs of the market and to fulfil stakeholder's expectations.

But Chandler, (1962) put forward the view that the emergence of strategy in civilian life resulted from awareness of opportunities and needs created by a changing population, income, technology and a need to employ the resources more profitably.

Ansoff, (1987) who warns that strategy is an elusive and somewhat abstract concept. This is why, perhaps like so many other concepts in the field of management there is no agreed all embracing definition. Ansoff, (1965) regarded strategy as concerned primarily with the external rather than internal concerns of the firm. Chandler, (1962) looks at strategy as the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals.

Hofer and Schendel, (1978) defined it as the basic characteristics of the match an organization achieves with its environment. Mintzberg *et al,* (1988) identified five interrelated definitions of strategy as a plan, ploy, pattern, position and as a perspective.

He does not argue that one definition should be preferred to the others, but sees that they should be considered as alternatives or complementary approaches.

Pearce and Robinson, (2002) consider strategy as large-scale future oriented plans for interacting with a competitive environment to achieve company objectives. The strategy of a firm forms a comprehensive master plan how the firm will achieve its mission and objectives (Wheelen and Hunger, 1990).

From the work of the writers noted above, strategy is all about actions taken by an organization today to gain competitive advantage over competitors in the long run, to satisfy stakeholder expectations and to increase the value of the firm.

2.2 The Environment and Strategy

All organisations without exception are environment serving or environment dependant. The environment is highly dynamic and continually presents opportunities and challenges. Strategic management is necessary for managing the relationship between an organisation and its environment. It is argued that strategic management is the only way of coming to terms with a changing world (Hussey, 1998). No organization can exist without the environment in an effort to spot trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 1987).

The environment is highly dynamic and continually presents opportunities and challenges. To ensure survival and success, firms need to develop capability to manage threats and exploit emerging opportunities promptly. This requires formulation of strategies that constantly match capabilities to environmental requirements. Success therefore calls for proactive approach to business (Pearce & Robinson, 2002).

The environment comprises of both the internal environment and the external environment. Whereas the internal environment is controllable, control over the external environment is limited. The internal environment consists of variables that are within the organisation itself. These include the organisation structure, culture, and resources (Wheelen and Hunger, 1990). The external environment can be sub-divided into the remote environment, industry environment and the operating environment.

The environment dependence phenomenon thus postulates that whenever environmental changes occur, they create pressure for change in an organization's strategy as well as the internal capability. The organization needs to make this adjustment if it has to survive overtime. Thus, where the external environment has changed one would expect changes in strategies and internal capabilities of organizations.

Pearce and Robinson, (2002) state that the remote environment is composed of factors that originated beyond any single firm's operating situation – that is, political, economic, social technological factors. The external environment presents opportunities and threats for the firm, while they rarely does the firm exert any meaningful reciprocal influence.

According to Pearce and Robinson, (2002) the operating environment involves factors in the immediate competitive situation that provide many of the challenges that a particular firm faces in attempting to attract or acquire needed resources or in striving to profitably market its goods and services.

Among the most prominent of these factors are a firm's competitive position, customer profile, reputation among suppliers and accessible labour market

Mwathi, (2003) suggested that a more definitive description of a firm's role in the environment is a requisite for growth and success. Such a description should encompass a broad scope of natural extension of a firm's product position, derived from some core characteristic of the present business.

Aosa, (1998) describes strategy as a means of solving a strategic problem, which is a mismatch between the internal characteristics of the organization and its external environment to exploit opportunities in the external environment.

Quinn, (1980) defines strategy as a plan or pattern that integrates organisation's major goals, policies and helps marshall and allocates resources into a unique and viable posture based upon its relative internal competencies and short comings, anticipated changes in the environment and contingent moves by intelligent opponents.

One of the environmental influences to a business arises from competition. Increased by reducing the profitability of players' competition sorts' pressure on firms to be proactive and to formulate successful response strategies to changes in the competitive environment.

Pierce and Robinson, (2002) recommended three critical ingredients for a successful strategy. First, the strategy must be consistent with conditions in the environment. It must take advantage of existing and projected opportunities and minimize the impact of major threats. Secondly, the strategy must place realistic requirements on the firm's resources. Lastly, the strategy must be carefully executed.

2.3 Responses

Porter, (1985) state that strategic responses may involve changes in products and markets, collaboration, diversification and even divestiture Strategic responses differ from operational responses.

Strategic responses are long term in nature and embrace the entire organization. Strategic responses also involve large amounts of resources and decisions relating to them are usually made corporate and business level, while operational responses are short- term and more concern with efficiency of operations.

Changes in the environmental conditions shape a firm's opportunities, challenges and threats. It is therefore necessary for any firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1979).

A good strategy is one that enables the organisation to effectively match its capabilities to the environment. Environment can be relatively stable or turbulent. Each level of environmental turbulence has different characteristics and requires a different strategy to match with the firm's capabilities.

Isaboke, (2001) reveals that the major oil companies have made a number of responses to the threat of new entry in the industry, that majority of the major oil companies in responding to the threat of new entry changed products and services offered, the market segment served and had also effected a change in technology.

Ansoff, (1987) stated that firms and other organizations, which are not subjected to strategic shocks, do, nevertheless, go through discontinuous strategic changes. This occurs through step-by-step accumulation of incremental changes, which, over a long period of time, add up to transformation of culture, power structure, and competence he called this process organizational adaptation and which is managed from the top and occurs in response to successive environmental stimuli.

Ansoff, (1987) product/market growth matrix suggest that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. These are: -

- **Market penetration**

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets.

Market penetration seeks to achieve four main objectives:-

• Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling

• Secure dominance of growth markets

• Restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors

• Increase usage by existing customers – for example by introducing loyalty schemes

A market penetration marketing strategy is very much about "business as usual". The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research.

- **Market development**

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.

There are many possible ways of approaching this strategy, including:

• New geographical markets; for example exporting the product to a new country

• New product dimensions or packaging: for example

• New distribution channels

• Different-pricing policies to attract different customers or create new market segments

- **Product development**

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products, which can appeal to existing markets.

- **Diversification**

Diversification is the name given to the growth strategy where a business markets new products in new markets.

This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

From a study carried out on the Kenya Petroleum industry, Abeka, (1996) documents strategic responses to change that major players in the industry have adopted, which includes the construction of filling stations in spacious locations in order to provide extra services for instance shops and cafeteria.

Kombo, (1997) in his study on strategic response by motor vehicle franchise holders in Kenya facing changed environmental conditions, found that for firms to be effective and hence successful, they should adapt appropriately to the changes that occur in the respective environments. Such adaptations may be referred to as strategic responses, (Schendel and Hofer, 1978).

If strategy is not matched to its environment, then a strategy gap arises. When the internal capabilities are not matched to its strategy, then a capability gap arises. Therefore, it is of importance that an organization is able to shift its strategy with changes in the environment and match its capability to the selected strategy in order to survive, succeed, and to maintain relevance (Porter, 1985).

Mwindi, (2003) found that unrelated diversification, as practiced by retail oil companies in Kenya was a move towards enhancing customer satisfaction, rather than an attempt to improve financial performance.

Abeka, (1996) found that each major company had launched at least one product or service following liberalization where each company was trying to innovate to achieve a competitive edge and capture opportunities in the market. Major oil companies were becoming more flexible and capable of quick response to any situation in the market.

Nyoike and Okech, (1999) Argued that after deregulation of the oil industry in 1994, however, the market players have to set their own profit margins. The companies have to compete on price, product quality and service offered to customers.

Wheelen and Hunger, (1990) observe that companies respond differently to the same environmental changes. They concluded that strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. The organization has to harness both its tangible and intangible assets to maintain a strategic fit in its environment and strategy.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This research was conducted through a case study. This method was chosen because it enabled the researcher to probe and obtain an in-depth understanding of a case such as at NOCK.

This design was valuable for detailed analysis. Young, (1960) and Kothari, (1990) concur that a case study often provides focussed and valuable insights to a phenomena that may be vaguely known and less understood.

3.2 Data Collection

This study used primary and secondary data. Primary data was collected using a questionnaire (See appendix I). In-depth interviews were conducted with available executives in NOCK.

The researcher obtained secondary data and material especially from Petroleum magazines and journals that have been published. Further material will be obtained from the annual report and accounts of the company.

A total of eight executives were interviewed. The executives were categorised into two: - The first category of executives were those that served in the NOCK board. This comprises of:- Chief Executive, Company secretary and any other board members. This Category of executives was included in the study because strategy was driven and leads at the board of director's level. The second category will comprise of the Head of departments: - Finance Manager, Human Resources Manager, Sales & Marketing manager, Exploration & Production Manager and Supply & Operations Manager. Category two featured because they are responsible for coming up with the strategy itself, with respect of their departments.

3.3 Data Analysis

Considering the kind of data envisaged as per the questionnaire, a conceptual and qualitative content analysis was used. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. Nyamweya, (2004) and Mbogo, (2003) who employed this kind of approach concur that it is useful in gaining fresh material in even what was thought to be unknown.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter covers data analysis and findings. The Company is a state owned Corporation, with 100% government shareholding structure. The findings are presented in two major parts: - The first part covers the challenges of liberalization to NOCK and the second part covers the responses by NOCK to liberalization.

4.2.1 Challenges of Liberalization to Nock

Members of the senior management team of the Corporation were interviewed and a set of questions was administered to them. Out of eight members of the top management targeted, six were interviewed. The respondents identified the key challenges that have faced NOCK as a result of liberalization in the following areas: - Competition from other oil companies, financial constraints, government regulation, overstaffing, attitude and culture, bureaucratic processes and the market share.

4.2.1 Competition from other oil companies

The respondents describe the oil industry environment as very harsh and have many challenges. Liberalization opened up a market in which NOCK had a guarantee 30% of the market share. Respondents in particular, mention the cartel like operation practiced by the major international oil companies to deliberately push small and independent operators out of the market. The Corporation had to start surviving like any other operator.

From the in-depth interviews, one of the respondents had this to say "As long as NOCK remains a parastatal, it has no chance of profitable trading in this competitive industry; as it is not answerable to a demanding shareholder". They noted that the liberalization of the petroleum industry has brought new entrants to the industry and for NOCK to survive in business; it has been forced to focus on new ways of doing business.

4.2.2 Financial Constraints

From the in-depth discussions with the finance manager, it appeared that the Corporation is no longer able to finance purchases through earlier arrangements as in the pre-liberalization era such as line of credit. He further remarked that, the Corporation is undergoing serious financial challenges brought about by the liberalization of the industry.

4.2.3 Government regulation

Among the problems the respondents cited in the industry is the fact that it was liberalized in 1994 without a comprehensive energy policy and a petroleum bill, both of which are currently a matter of debate in parliament. Therefore, lack of clear regulatory framework results in unfair competition. Most respondents stated that though the Government policies are a challenge to the company, the response has always been full compliance with the law to avoid being in collision with the Government. With the

Government coming up with the open tender system (OTS) regulation in January 2004 to curb negative effects of Liberalization, small operators such as NOCK have found it more difficult to operate

4.2.4 Overstaffing

The respondents expressed concern that overstaffing has been a big problem in the Corporation. Further, they felt that NOCK has been unable to address this because of lack of funding to finance a retrenchment programme.

4.2.5 Attitude and Culture

Respondents expressed concern that NOCK is characterized by laxity in employees towards their duties; indifference to customer needs and inter departmental walling. Respondents observe that the attitude and culture of the staff has not changed from pre-liberalization era. They expressed concern that such an attitude is inappropriate or detrimental in a competitive environment.

4.2.6 Bureaucratic process and procedures

Respondents other concern was that NOCK is a 100% government owned and controlled and therefore key managerial decisions must be vetted and approved by the government. They further stated that the processes and procedures were spelled out by government in the early 1990's and have not been changed to meet changing environmental conditions.

4.2.7 Market share

The market share dropped drastically from the guaranteed 30% prior to October 1994 to less than 1% in 1995, which is negligible as compared to the market. According to the sales and marketing manager, NOCK has been dislodged from its position as the industry leader because of increased competitive intensity in the industry.

4.2.2 Responses by Nock to Liberalization

NOCK as a parastatal has an important role to safeguard the industry from exploitation by multi-nationals and liaise with small players as patriotic and caring for indigenous companies. In response to and in anticipation of increased competition in keeping a breast with competitive pressure, they had to build stations outside Nairobi.

Some respondents raised concern that NOCK prior to liberalization was susceptible to inept governance, in efficient delivery of products or services, negligence knowing the government can cover-up, enjoying uneven playing field through government subsidy of 30% crude processing.

The respondents identified the responses which management has embarked on as a result of liberalization includes: -

4.2.3 Financial base

From the in-depth interview with the finance manager, among the areas the management has focused to improve the liquidity position includes the disposal of non-performing assets such as idle or undeveloped plots, excess motor vehicles and the re-alignment of the banking facilities.

According to the finance manager, the corporation has continued to rationalize the operations and to implement appropriate costs cutting measures.

The respondents interviewed concur that it is important to get the shareholder's commitment in funding the Corporation. The Competitors who are mainly the multinationals have a strong financial support from various activities and sources. The focus of management is currently on profitable sectors of the business for example consumer industrial and Retail network. The shareholders have responded recently injected additional share capital through the on-going share drive/shareholders commitment.

4.2.4 Capacity Building

According to the Human Resources and administration manager, the corporation has had to map out ways of improving staff competencies to fit in the new more efficient and competitive market. She remarked that an effective Management is one that has the will, competence and the capacity to respond to the demands of the prevailing environment

The company has been in a restructuring programme for the last decade (post liberalization), which is geared towards generating efficiency and effectiveness. Among them includes: one, Change of the board of directors to include members of the private sector experience. Two, the Human Resource policies have refashioned to portray a commercial outlook and to compare them with the industry. Three, The Corporation has engaged in staff retrenchment in March 2005, which involve voluntary retirement. Four, In addition, the company has sponsored extensive training of staff in team building activities thus empowering them with new ideas and finally, the recruitment of more experienced staff from private sector especially at the managerial positions.

4.2.5 Corporate vision/mission

The respondents pointed out that there has been no vision/mission in the pre-liberalization era. The Corporation has now created these to give a sense of direction.

The Company's vision statement is " To be the leading integrated National Oil Company in the region" and the Mission statement is" To produce and trade in petroleum in a commercial and socially responsible manner for the benefit of our shareholders."

Most respondents describe the current management as involving a combination of elements, namely, establishing the overall direction through new corporate image, which has drawn staff into shared commitment with the vision and maintained the confidence. The new board and management are committed to change and being the custodians of the corporation's strategy. The management has therefore embarked on an ambitious programme of re-inventing the company.

Consequently the strategic plan documented by the company contains, the vision, mission, objectives, and action plan with specific actions to be undertaken by each section.

4.2.6 Organizational structure

The Corporation in the post liberalization era has undertaken a restructuring of the departments and introduces an IT department. The Corporate planning department has been merged with the finance department, administration with human resources. The change in structure was to keep in line with the required efficiencies and act unnecessary costs.

4.2.7 Technology

The Corporation's philosophy has always included the determination of never to stand still. There is an urge to continue to seek new ways of developing the resources and expertise to remain at the edge of technology. The commissioning of the most ultra modern common user loading facility in the country in 2002 was a great stride for national and the fruits of this effort are being reaped. New technology especially in ICT is leading to faster decision Making. The respondents feel that the company response to technological change has been minimal as technological change has been so rapid that the company is faced with in the post liberalization era.

4.2.8 Market segments

According to the Sales and Marketing manager, the retail market segment and consumer business are currently the focus as a safeguard against low margins in the wholesale sector. The opening up of markets such as exports in 1995, was to counter the effects of liberalization currently, the corporation is focusing on representation in every region especially in Mombassa and the Nairobi environs.

The Operations co-ordinator revealed that most of the retail outlets were established after the liberalization of the oil industry in October 1994. NOCK has six fully-fledged petrol service stations through which we have earned an enviable reputation for quality and excellent customer service.

The Corporation undertook a business re-organization process in 2004 to improve service delivery by increasing them efficiently and effectiveness. Embarked on a restructuring programme, from a marketing perspective, the corporation has responded to competition by adopting a personalized setting strategy focused towards building long-term relating with customers. Liberalization therefore gave the Corporation an opportunity to diversify its customer base.

4.2.9 Bureaucratic process and procedures

NOCK response to the challenges have not been significant due to the unavailability of capital and lack of managerial autonomy to make strategy decisions. According to the Human resources manager, the corporation has responded to the liberalization by having a flat organization structure that empowers the managers. It is clear that the Company has re-looked at what drives it; it has continuously trained its personnel to respond to the changes in the environment.

4.2.10 Strategic Alliances

The respondents believe that for the company to implement the strategic plan successfully, there is need to effectively communicate the same to all the staff of the company. The staff needs to articulate the vision and mission statements as well as know the goals and objectives of the company NOCK is currently seeking strategic alliances with international operators to enable it finance and import petroleum products at competitive prices.

The staff undergoes in house training and is reminded in meetings the contents of the strategic plan and their role in ensuring successful implementation of the plan. The operational procedures and manuals also act as a guide to the staff.

The respondents further reiterate that for the corporation to implement the strategic plan successfully, there is need to effectively communicate the same to all the staff of the company. The staff needs to articulate the vision and mission statements as well as know the goals and objectives of the company.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this section, we discuss the main findings, draw conclusions and make recommendations emanating from the research findings covered in the previous chapter.

The petroleum industry in Kenya has been liberalized for the past decade.

These changes have had wide implications in the shift of access and affordability of petroleum products. Smaller operators like NOCK have had to device survival tactics in the lucrative industry. It has also intensified the rivalry within the industry, while at the same time creating opportunity for investment for other players.

5.2 Discussions

All respondents interviewed believe that NOCK has a bright future and should not vacate the industry. Instead, it needs to embark on full-scale marketing and expand its business. The respondents recommend that NOCK get stronger financial backing from the stakeholder to be able to compete favourably. It was concluded that NOCK's main inadequacy lies on its weak financial position, a situation that could be easily solved through injection of the so much required funds.

From the objective to determine the responses to liberalization, NOCK has adopted to cope with the challenge of liberalization. The results indicate that the Corporation has made some positive move towards becoming more competitive even though the effect has been minimal compared with competitors. One of the response strategies adopted by the Corporation in anticipation of increased competition was the introduction of six retail outlets. This strategy worked for the Corporation even though sustaining it has been difficult due to increased competitive setbacks.

NOCK have had to cope with industrial obstacles on the same footing as the bigger financially endowed players. The obstacles in the industry include: -Heavy taxation of the petroleum industry, Government regulation of the import market through the requirement of percentage processing of oil processing at the Kenya petroleum refineries Limited, Industrial mal-practices like price-fixing allegedly practiced by the large multinationals to enhance their control of the market and the Pricing and marketing of petroleum products remains firmly in the hands of the private sector, through the subsidiaries of the multinational corporations.

From the discussions with the managers, they indicated that they had made changes in the technology used; this was aimed at achieving efficiency in their operations. Similar findings were made by Kombo, (1997), who found that the motor vehicle firms had significantly changed with technological advancement. The Corporation has had to rationalize their operations in an attempt to be competitive and responsive. This finding ties with Abeka, (1996) who found that most companies were undergoing internal re-organization in such a way that they were becoming thinner and flatter and therefore more focused on the customer

5.3 Conclusion

From the foregoing discussions, the following conclusion can be drawn, NOCK has been dislodged from its position as the industry leader, the Corporation's success as a commercial entity is under serious threat arising from the great extent to which most of the industry forces have negatively affected the Corporation.

In spite of the handicaps mentioned, a clear strategic plan and adequate funding to support the plan would see NOCK operating profitably. There is heavy association between NOCK and the government. While this is definitely unavoidable, NOCK must make it a duty and practice to prove that it can be the success story in the region through astute management practices, professionalism and productivity. The pool of independent petroleum dealers is a good source of revenue. However, there is need to urgently acquire profitable clients, no necessarily fellow parastatal or government agencies, whose payment regime is known to be irregular and untimely.

Respondents interviewed concluded that in order to protect the country from the multinationals, NOCK need to be directly empowered to contain the margins so far enjoyed by the multinationals. This include being heavily funded for both its upstream and downstream activities

The vision, mission and strategic objectives of NOCK need to be evaluated to ensure they form the corporate turn-around. Support from the stakeholders would be pivotal in this exercise.

NOCK has to continue investing in the upstream sector, through exploration activities, with the hope and determination that Kenya will strike substantial oil deposits, or strike natural gas like Tanzania recently did. NOCK should re-evaluate its strategies and put some of the impending corporate strategies into practice.

There is need to standardize all the retail outlets operated under the 'National' brand name. This includes ensuring proper illumination and signage, working pumps as well as adherence to the environment protection concerns. It has been suggested that NOCK needs to continue with the proposed expansion of the loading facility in Nairobi. NOCK's percentage share in retail market is negligible, and reflects the need for increased investment in this profitable segment of the industry.

NOCK buys off retail outlets that are deemed viable. Emphasis should be made in the Nairobi area that constitutes about 65% of the petroleum product market in Kenya.

It is important to get the shareholder's commitment in funding the corporation. The competitors have strong financial support from various activities and sources, which include exploration, drilling and ownership of oil wells in the upstream industry.

The study reveals the company has made a number of responses to the challenges of liberalization. The study also reveals that the level of competition in the industry is very high.

The Corporation evidently needs to consolidate its strengths and capabilities in order to develop a unique identity that can work towards rebuilding and enhancing a strong image. The Corporation may require a total business process re-engineering aimed at improving the service delivery and significantly reduce the response time to exploiting environmental opportunities. Strategic thinking is imperative in turning around the business and realizing success in the long run.

In view of the above discussions, it is evident that on the onset of liberalization, NOCK has been forced to respond to the challenges emanating from its new environment, financial challenges, human resources and lack of managerial empowerment/Autonomy.

5.4 Limitations of the study

It is worth noting that there were limitations in the study. Due to the nature of this study, the researcher intended to collect data from eight executives of NOCK, by use of personal interviews so as to gather more underlying information and clarify issues where necessary. This was only possible with six of them. However, this should not have affected the results, as their findings were generally similar.

5.5 Recommendation for Further Research

I recommend that a fully-fledged study on both operational and strategic responses of all indigenous oil companies be carried out. The outcome of this study could not generalized to other indigenous oil companies that were in existence after liberalization. After liberalization there were independent petroleum companies licensed, a study of all indigenous oil companies would greatly benefit the industry in terms of determining the strategies they use. Such a study will complement this one in providing information on the petroleum industry.

5.6 Recommendation for Policy and Practice

NOCK, operates under very restrictive conditions, mainly because it is a state corporation operating under the state Corporation Act cap 486 of the Laws of Kenya. It is clear that unless the corporation is exempted from the restrictions and enabled to source for resources particularly financial and technological resources, design its own reward and motivational structures and formulate strategy supportive policy procedures, and support systems it may never experience sustainability and prosperity through.

NOCK should lobby for reasonable autonomy from the government of Kenya as by reason of being a state Corporation it is exposed to restrictions that lead to varied challenges to strategy formulation.

Strategy is implemented in a changing environment; both by government and state corporation must change their way of looking at things or change their policies and practises if they want to live up to their expectations of policy paper on public companies. The policy paper recognise that a major goal of state owned companies is profitable through efficient operation in a competitive environment.

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APPENDIX I

Administered by the researcher

SECTION A. GENERAL QUESTIONS

1. What major changes has NOCK made since liberalization?

2. What role does NOCK play as a State Corporation?

3. How has NOCK been affected by the industry forces since liberalization?

4. Kindly describe your funding methods- Loans (Short or long term?)

SECTION B. CHALLENGES OF LIBERALIZATION TO NOCK

5. (a) Which of the following challenges has faced NOCK as a result of liberalization (Tick as appropriate)

- Competition from other oil companies

- Financial Constraints

- Government regulations

- Staff competencies

- Marketing

- Negative publicity e.g adulteration of fuel

(b) For the ones ticked in (a) above, please explain

6. To what extent has NOCK been affected in the following aspects after liberalization: -

- Profitability

- Market share

- Customer base

7. (a) Has there been a change in each of the following as result of liberalization?

- Corporate vision/ mission

- Technology

- Organizational structure

- Customer satisfaction

- Planning

(b) Please explain what changes

8. What are the challenges regarding the threat of new entrants that are likely to face your company into the future?

SECTIONC. MEASURES TAKEN BY NOCK TO RESPOND TO LIBERALIZATION

9. How has NOCK responded to the challenges posed by liberalization?

10. In which of the following areas have you carried out changes to respond to liberalization? (Tick only those that you have changed). For those that have changed indicate briefly the nature of change.

- Corporate vision/ mission
- Technology
- Organizational structure
- Market segments served
- HR Policies
- Strategic alliances

11. What are you doing to the challenge of increased competition in the industry?

12. What in your view would NOCK have done differently?

13. Given a chance how would you re-organize NOCK'S operations countrywide?