A SURVEY OF THE INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF OIL FIRMS IN KENYA

BY

MARGARET WARIGIA WAIREGI

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

OCTOBER, 2009

DECLARATION

This research project is my original work and has not been submitted for award of degree in this, or any other university.

Signed: ......MWairegi...... Date: ......7/11/2009......

MARGARET WARIGIA WAIREGI
D61/8313/2006

This management research project has been submitted for examination with my approval **as** university supervisor.

Signed: ......PKobonyo...... Date: ......07/11/2009......

PROF. PETER K'OBONYO
SUPERVISOR

DEDICATION

This study is dedicated to my dear husband and children for their love, support, patience and encouragement.

To my parents for their encouragement and prayers.

ACKNOWLEDGEMENT

This research would not have been possible without the input of the following people to whom I am deeply indebted. I would like to express my sincere appreciation and special thanks to my supervisor Prof. Peter K'obonyo who guided me throughout the course of the research study.

I am also grateful to the staff of Kabete Campus, Oil Companies and Petroleum Institute of East Africa who helped me get the required information for the project.

TABLE OF CONTENTS

DECLARATION ii
DEDICATION iii
ACKNOWLEDGEMENT iv
LIST OF TABLES vii
ABSTRACT viii

CHAPTER ONE: INTRODUCTION 1
1.1 Background 1
1.1.1 Competitive Strategies 2
1.1.2 Firm Performance 2
1.1.3 Relationship between competitive strategies and firm's performance 3
1.1.4 The Oil Industry in Kenya 5
1.2 Statement of the Problem 6
1.3 Objectives of the Study 7
1.4 Importance of the study 8

CHAPTER TWO: LITERATURE REVIEW 9
2.1 Introduction 9
2.2 The Concept of Strategy 9
2.3 Competitive Strategy 10
2.4 Generic Competitive Strategies 15
2.5 Diversification and Marketing Strategies 18
2.6 Firm Performance 19
2.7 Link between Competitive Strategies and Firm Performance 20

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY 22
3.1 Introduction 22
3.2 Research Design 22
3.3 The Population 22

3.4 Data Collection Methods 22
3.5 Data Analysis 23

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS 24
4.1. Introduction 24
4.2 The Firm's Profile 24
4.3. Competitive Strategies 26
4.4. Performance Measures 31
4.5. Competitive Strategies and Performance 34

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 40
5.1 Introduction 40
5.2 Summary of the Findings 40
5.3 Conclusion 41
5.4 Recommendations 41
5.5 Suggestions for further Research 42

REFERENCES 43
Appendix 1: Introduction Letter 46
Appendix 2: List of Oil Companies in Kenya 47
Appendix 3: Questionnaire 48

LIST OF TABLES

Table 1: Number of years the firm has been in operation 24

Table 2: Ownership 25

Table 3: Listing in the Nairobi Stock Exchange 25

Table 4: Marketing Channels 25

Table 5: Type of Markets Served 26

Table 6: Level of Competition 26

Table 7: Mean Scores and Standard Deviations for the influence of Liberalization on the intensity of competition in the Industry 27

Table 8: Mean Scores and Standard Deviation for the extent to which each competitive strategy is used by the firms 27

Table 9: Extent to which Differentiation Strategy is applied by the Firms 28

Table 10: Extent to which Pricing Strategy is applied by the Firms 29

Table 11: Extent to which social responsibility strategy is applied by the Firms 29

Table 12: Extent to which Distribution Strategy is applied by the Firms 30

Table 13: Extent to which Product Strategy is applied by the Firms 30

Table 14: Sales Turnover in Metric Tones (2004 - 2008) 31

Table 15: Means Scores and Standard Deviation on the extent to which competitive strategies influenced Sales Turnover 31

Table 16: Market Share of each Firm in Percentage (2004 – 2008) 32

Table 17: Means Scores and Standard Deviation on the extent to which competitive strategies influenced market share 33

Table 18: Net Profit over the last five years (2004 – 2008) 33

Table 19: Correlation between Differentiation Variables and Average Market Share 34

Table 20: Correlation between Price Variables and Average Market Share 35

Table 21: Correlation between Product Variables and Average Market Share 36

Table 22: Correlation between Differentiation Variables and Average Sales 37

Table 23: Correlation between Price Variables and Average Sales 38

Table 24: Correlation between Product Variables and Average Sales 39

ABSTRACT

The oil industry in Kenya plays a significant role in the economic development of the country. It makes a major contribution in the transport industry and other commercial industries which use gas and diesel. The industry has been going through many changes since liberalization in 1994. This removed barriers of entry and with many players in the industry, intense competition started.

The study sought to determine the competitive strategies employed by the major oil firms in Kenya and the influence of the competitive strategies on the performance. The study was carried out as a descriptive research. Data was collected through semi-structured questionnaires which were directed to the Marketing and Commercial Managers of the firms.

The findings of the study revealed that the most commonly used competitive strategies in the industry are differentiation, market focus, diversification, product development and mergers and acquisition. The research also revealed that some of the differentiation strategy variables had a relatively significant correlation with performance.

The researcher recommends further studies on the influence of competitive strategy on performance in other industries.

CHAPTER ONE: INTRODUCTION

1.1 Background

All business firms are open systems. Organizations depend on the environment for both their inputs and outputs. They affect and are affected by external conditions that are largely beyond their control. Ansoff (1987), states that an organization must adapt to the environment. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what other relevant stakeholders are likely to do. Environment is a key element to an organization's success. Environment can be relatively stable or highly turbulent. Each level of environmental turbulence has different characteristics, requires strategies and different firm capabilities.

Strategy is the framework within which choices about the future nature and direction of an organization can be made. Strategy is about an organization's relationship with its external environment. The oil industry operates in a competitive environment and therefore each organization must adapt a strategy to handle these relationships.

Ansoff (1998) presented the strategic success hypothesis as follows;- A firm's performance potential is optimized when the following three conditions are met. Aggressiveness of the firm's strategic behavior matches the turbulence of its environment, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capabilities must be supportive of one another. There is need for continuous strategic diagnosis. For optimum profitability, the responsiveness of the general capability must match the turbulence level of the firm's environment.

1.1.1 Competitive Strategies

Competitive strategy refers to how a company can compete in a particular business. Competitive strategies are concerned with how a company can gain a competitive advantage through a distinctive way of competing. Competitive strategy emphasizes the improvement of the competitive position of a firm's products or services in the specific industry or market segment Hunger & Wheelen (1995). Industry competition depends on the structure of the industry as defined by forces affecting the industry. The forces determine profitability or attractiveness of the industry.

Porter (1980) noted that every firm that is competing in an industry must have a competitive strategy whether explicit or implicit. This strategy may have been developed explicitly through a planning process or it may have evolved implicitly through activities of the various functional departments of the firm. Developing a competitive strategy is developing a broad formula of how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals. Porter postulates that a competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. The goals and the policies must be linked together. The essence of strategy formulation is coping with competition. Competition determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, cohesive culture and good implementation.

1.1.2 Firm Performance

Performance is a measure of results achieved. Performance efficiency is the ratio between effort expended and results achieved. Performance is an abstract concept and must be represented by concrete, measurable phenomena or events to be measured. The performance indicators (PIs) can be the growth of the organization, market share, satisfaction with return on investment, return on equity, growth in revenue and profitability. Different stakeholders require different performance indicators to enable them make informed decisions (Manyuru, 2005).

Organizational performance comprises of the actual output or results of an organization as measured against its intended outputs (or goals and objectives). In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as financial performance (shareholders return), customer service, social responsibility (corporate citizenship, community outreach) and employee stewardship.

Kaplan and Norton (1996) argued that achieving one perspective's target should lead to desired improvement in the next perspective and so on until the company's performance increases overall. A properly constructed scorecard is balanced between short term and long term measures; financial and non financial measures, internal and external performance perspectives.

1.1.3 Relationship between competitive strategies and firm's performance

Strategy is the game plan that creates a match between a firms capabilities and the environment. Strategy is about the overall performance of an organization. Different firms use different strategies for their success and the strategy must be unique to that firm. Johnson and Scholes (2002) posit that competitive strategy is the basis on which a business unit might achieve competitive advantage in its market place. Thompson et al. (2007) adds that competitive advantage is the key to above average profitability and financial performance. A strategy can be implicit or explicit. In the business firm, concern with explicit formulation of strategy is relatively recent.

Porter (1980) postulate's that the essence of strategy formulation is coping with competition. Competition determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, cohesive culture and good implementation.
Thompson et al.(2007) adds that competitive advantage is the key to above average profitability and financial performance. This, he states is because strong buyer preferences for the firm's products translate into higher sales volumes or ability to command higher prices, thus driving up earnings, return on investments and other financial performance indicators.

The idea that strategy content influences organizational performance is a central element of generic management theory. Strategy content can be defined broadly as the way an organization seeks to align itself with the environment (Donaldson, 1995; Miles and Snow 1978). Strategy can be characterized as senior managers' response to the constraints and opportunities that they face. The better the fit that an organization achieves with external circumstances, the more likely it is to win financial and political support and thereby improve its performance. In the 1960s and 1970s, the view that private organizations were prisoners of market forces and thereby compelled to adopt the single strategy that fit their economic circumstances began to erode. Major management theories such as those of Chandler (1962) and Child (1972) emphasized that the private firms can exercise strategic choice, even in the face of external constraints. They can, for example, specialize in a single market or operate in a variety of markets, seek a competitive edge through low cost or high quality, and attempt to protect or enhance their share of the market.

Strategies do not always lead to improved performance. Campehell and Marcus (1997) stated that the strategic plan has become almost as common as management tool as the budget but few executives are satisfied with it. Many planning sessions result into no new actions and plans themselves often end up buried in bottom drawers. Most planning processes are met with groans rather than cheers.

1.1.4 The Oil Industry in Kenya

The oil industry in Kenya was established in 1948 through the Petroleum Act chapter 116 of the Laws of Kenya. Kenya is not a producer of petroleum. It imports crude oil mainly from the Gulf which is then refined at the Refinery depot in Mombasa. It is then distributed by pipeline, road and rails to the various depots of the Kenya Pipeline Company. Petroleum Insight Magazine April – June 2006 (Wachira) states that the petroleum sector has numerous and critical impacts on the Kenyan economy. Regulatory framework governs this crucial industry. Petroleum is a sub-sector under the Ministry of Energy which was created in 1980 and it has to ensure security of supply, safety of petroleum operations and maintenance of fair trading practices within the sub-sector. The industry was deregulated in 1994. Due to this deregulation and liberalization of the Kenyan economy, competition has intensified. The level of the environmental turbulence has been on an upward trend.

The industry consists of about 25 oil marketers, five of them being the major players, namely Shell BP, Total, Oil Libya, Kenol Kobil and Chevron. Caltex which recently changed name to Chevron has just been acquired by Total Kenya and the merger process should be finalized by October 2009. Other players include National Oil Corporation, Hass, Gapco, Galana and other small companies referred to as “independents”.

In the Petroleum Insight (July - September 2009) issue, the market shares for the five players between January – June 2009 indicates a significant change as compared to the same period in 2008. The market shares starting with the leading company are as indicated below:-

Table 1: Market Shares: January – June 2008/9

COMPANY	Market Share % 2008	Market Share% 2009
Kenol Kobil	18.06	23.1
Shell	21.31	18.8
Total Kenya	20.07	14.8
Chevron	12.10	10.1
Oilibya	7.88	10.0
TOTAL	**79.42**	**76.8**

Source: Petroleum Insight – 3rd Quarter July-September 2009

The major companies contribute about an average of 79.4% of the market share. About 21% is controlled by the independents. According to Petroleum Insight Magazine, there are about 1052 service stations for both the independent and branded companies.

1.2 Statement of the Problem

The oil industry in Kenya plays a significant role in the economic development of the country. It makes a major contribution in the transport industry and other commercial industries which use gas and diesel. When the industry was liberalized in 1994 price wars started. There has also been noted a few mergers and acquisitions in the industry where BP and Agip were acquired by Shell, Esso was acquired by Mobil which is now Oil Libya, Caltex changed name to Chevron and has just been acquired by Total Kenya. This has led firms to adapt competitive strategies to position themselves in the market.

Whereas several studies have been carried out in competitive strategies in various industries, only a few of them have focused on the relationship between competitive strategies and performance. These include Ekirapa (2007) who analyzed the competitive strategies in Nation Media Group and found that the strategies adopted have placed the company in a favorable position relative to the competition. He did not indicate whether the strategies had any relationship with performance of the firm. Kariuki (2007) focused her study on competitive strategies by five stars hotels. The study revealed that the hotels that have put in place competitive strategies have an edge over their competitors. However there was no mention of any link between strategy and performance.

Nguluu (2006) focused his study on the strategic management and performance of the manufacturing firms in Kenya. The survey revealed that although most companies have a vision and mission, they are not cascaded to the lower levels. Omondi (2006) focused her study on airlines in Kenya. The study revealed that the airlines which had adopted various strategies had an edge over their competitors which had not done so. However, she stated that her study was not able to link strategy and performance and she therefore suggested need for further research.

The various studies conducted on the oil industry Chepkwony (2001), Isaboke (20001) Murage (2001), Apungu (2003), Owuor (2004), Amir (2007) focused on competitive strategies and responses to changes in the environment. None of them revealed the relationship between strategy and performance. A knowledge gap therefore exists regarding the influence of competitive strategies on performance of the oil firms in particular and private sector organizations in general. This study therefore seeks to close the gap mentioned above by answering the questions:

1) What competitive strategies are employed by the oil firms in Kenya?
2) What influence do they have on the performance of the firms?

1.3 Objectives of the Study

The research project seeks to establish the relationship between competitive strategies and performance of the oil firms in Kenya.

1.4 Importance of the study

The findings of this study will benefit a number of interest groups as discussed below.

The managers in the oil firms will use the research findings and recommendations to position themselves and compete competitively in the market. It will also make them understand the link between the adopted strategies and the organizational performance.

To the government authorities and specifically the Kenya economy, the oil industry plays a big role in contribution to the exchequer in terms of taxation. Oil companies are among the top tax payers.

To the public in general and to other players in the industry in particular who will gain new insights into the industry. Players in this industry will also be able to understand the strategic issues that they need to address in order to position themselves more competitively in the environment in which they operate.

For the investors especially for the companies quoted in the stock exchange, Total and Kenol Kobil, the study will give them a better understanding of the performance of the firms and hence earnings per share.

For the academicians and scholars, the study will enrich their knowledge of the industry and identify areas for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature and authorities on strategy and strategic management. It explains the relationship between competitive strategies and performance in the organizations and the factors in the environment that affect this relationship.

2.2 The Concept of Strategy

Various authors define strategy in different ways. There is no agreed, all-embracing definition of strategy. It is commonly believed that our concept of strategy has been passed down to us from ancient Greeks. Bracker (1980) argued that the word strategy comes from the Greek stratego, meaning to plan the destruction of one's enemies through the effective use of resources. However, they developed the concept purely in relation to the successful pursuit of victory in war. The concept remained a military one until the nineteenth century, when it began to be applied to the business world (Barnes, 2000). According Johnson & Scholes (2002) strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment to fulfill the stakeholder expectations. Ansoff and McDonnell (1990) define strategy basically as a set of decision-making rules for guidance of organizational behavior. They further add that there are four distinct types of such rules as follows. The first is yardsticks by which present and future performance of the firm is measured. The quality of yardsticks they say are called objectives and the desired quantity are goals. The second type is rules for developing the firm's relationship with its external environment which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called the operating policies.

Mintzberg (1988), contends that there is need for at least five definitions of strategy to gain a full understanding of what the concept is. The five interrelated definitions are:- strategy as a plan, strategy as a ploy, strategy as a pattern, strategy as a position and strategy as a perspective. Strategy as a plan specifies a deliberate, consciously intended course of action that is designed in advance of the actions it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception. This they term as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. Mintzberg argues that no one definition should be preferred to the others. In some senses they can be considered as alternatives or complementary approaches to strategy.

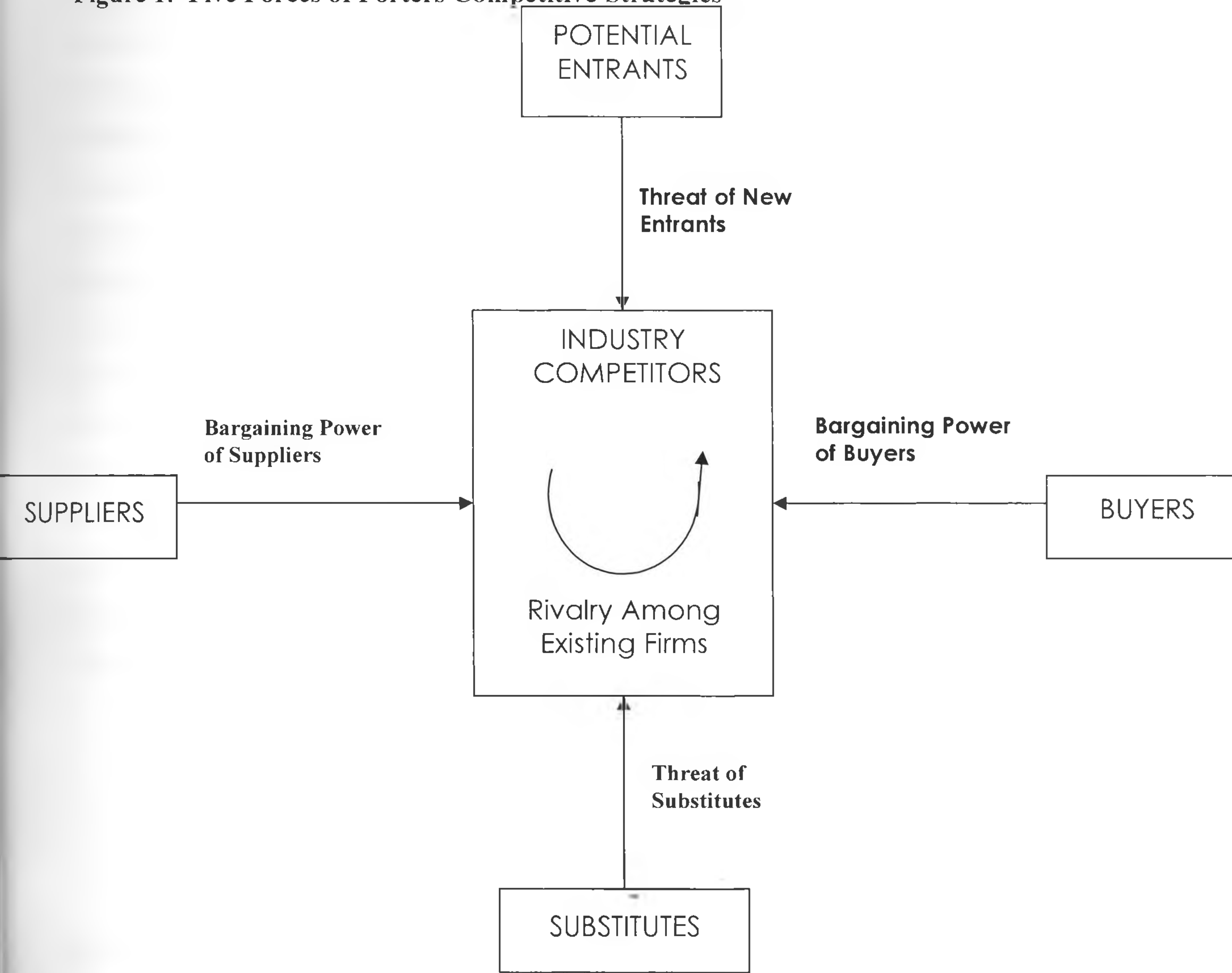
Pearce and Robinson (2003) observed that strategy is a company's game plan which provides a framework for managerial decisions. It reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete. Strategic management is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. The challenge of strategic management is to be able to understand complex issues facing organizations and develop the capability for long term organizational success.

2.3 Competitive Strategy

Porter (1980), states that every firm competing in an industry has a competitive strategy, whether explicit or implicit. This may have developed explicitly through a planning process or it may have evolved implicitly through the activities of the various functional departments of the firm. The essence of formulating a competitive strategy is relating an organization to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm.

Porter (1980) states that the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against the five competitive forces – threat of new entrants, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. These five forces constitute competitive forces in the industry and it is from the analysis of these forces that a firm determines its competitive strategy.

Figure 1: Five Forces of Porters Competitive Strategies



Source: Porter, M E (1998) Competitive Strategy, The Free Press Pg 4.

New entrants in an industry bring in new capacity, a desire to gain market share and in some cases substantial resources. The threat posed by new entrants depends on the barriers to entry in the industry. Porter gives six barriers to entry as explained in the following discussion.

Economies of scale which is the decline in unit costs of product as the absolute volume in a period increases. Economies of scale deter new entrants because it means they have to enter the industry on a large scale which is more risky due to strong reactions from existing firms or accepting cost disadvantages by entering on a small scale. Product differentiation deters new entrants because existing firms already have brand identity and customer loyalty. Capital requirements deter entry due to the need for large financial investments in order to compete especially if the capital is for risky and irrecoverable expenses to penetrate the industry. Switching costs in form of costs required by buyers to switch from one supplier's products to another deter new entrants because buyers may not be willing to incur such switching costs. Access to distribution channels deter new entrants because existing firms already have a good command of existing channels and the new entrant may have to spend heavy outlays to establish new channels or persuade existing ones to accept his products. The last barrier is the government policy which can limit entry by controls like licensing requirements, limitations on access to raw materials, product safety standards and environment pollution laws. Such government policies may also require the new entrant to incur heavy capital outlays in order to comply.

The intensity of rivalry among firms involves jockeying for positions in the industry. It involves activities like price wars, advertising campaigns, product innovations and customer service. Rivalry is aggravated by the presence of numerous and equally balanced competitors, slow industry growth, high fixed and storage costs, absence of differentiated products, absence of switching costs, diverse competitors in terms of goals and strategies and high exit barriers. Any firm in such an industry has to design strategies to gain an edge over the competitors.

Threat from substitute products comes because substitutes limit the potential returns in an industry. Substitutes are products that can perform the same function as the products of the industry. According to Porter, substitutes that require most attention are those that are subject to trends improving their price performance tradeoff with the industry's product or those that are produced by industries earning high profits. Analysis of these substitutes is important in deciding the strategic approach towards them.

Buyers compete within an industry by forcing down prices, bargaining for better products or playing competitors against each other at the expense of industry profitability. Buyers are more powerful if they buy large quantities relative to firm's sales, the products represent a large proportion of the buyer's costs, the products are undifferentiated, switching costs are low, the buyer earns low profits, they have a great potential for backward integration, buyer has full information and the products are unimportant to the quality of buyer's products and services. To counter buyers' power, firms have to devise strategies.

Suppliers exert a threat to an industry by threatening to raise prices or reduce quality of purchased inputs thereby squeezing profits from an industry. Suppliers are more powerful if they are dominated by only a few firms, if there are no competing substitutes, the industry is not an important customer to the supplier, the supplier's product is an important input to the industry, supplier's products are differentiated, there are switching costs on supplier's products and the supplier has great potential to integrate forward.

Once the forces affecting competition in an industry and their underlying causes have been diagnosed, the firm is in a position to identify its strengths and weaknesses relative to the industry. From a strategic standpoint, the crucial strengths and weaknesses are the firm's posture vis-à-vis the underlying causes of each competitive force. Porter states that an effective competitive strategy takes offensive or defensive action in order to create a defendable position against the five competitive forces. This involves a number of possible approaches: positioning the firm so that its capabilities provide the best defense against the existing array of competitive forces; influencing the balance of forces through strategic moves, thereby improving the firm's relative position; or anticipating shifts in the factors underlying the forces and responding to them, thereby exploiting change by choosing a strategy appropriate to the new competitive balance before rivals recognize it.

Pearce and Robinson (2003), state that the essence of strategy formulation is coping with competition. Competition in an industry is rooted in its underlying economics and competitive forces that exist in that particular industry. The collective strength of these forces determines the ultimate profit potential of the industry and superior performance. Newman & Logan (1989) contend that the severity of competition in a specific industry will result from a combination of these several factors.

2.4 Generic Competitive Strategies

The state of competition in an industry is determined by the five competitive forces as discussed earlier. Porter (1998), states that there are three generic competitive strategies used to gain competitive edge in an industry. These strategies are overall cost leadership, differentiation and focus. A firm can sometimes successfully pursue more than one strategy as its primary target.

A business success built on cost leadership requires the business to be able to provide its product or service at a cost below what its competitors can achieve. The business must be able to accomplish one or more activities in its value chain activities – procuring materials, processing them into products, marketing the products, distributing the products or support activities in a more cost effective manner than that of its competitors or it must be able to reconfigure its value chain so as to achieve a cost advantage (Pearce and Robinson 1997).

According to (Porter 1998), achieving lost cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas of research and development, service, sales force and advertising. Having a low cost position yields the firm above average returns in its industry despite the presence of strong competitive forces.

Differentiation involves offering products for services of the firm that are perceived industry wide as being unique (Porter 1998). Strategies to differentiation can take the form of design or brand image, technology, features, dealer network or customer service. Firms that achieve differentiation strategy earn above average returns in the industry because they create defensible position for coping with the five competitive forces albeit in a different way than cost leadership. The advantages of differentiation are that it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a low cost position and positions the firm vis-à-vis substitute products than its competitors. Pearce and Robinson (1997), asserts that the essence of differentiation is to be unique in ways that are valuable to customers and that can be sustained for a company to be successful in the strategy. It has to study the buyer's needs and behaviour carefully to learn what they consider important, with value and what they are willing to pay for it. Grant (1998) states that differentiation strategies are not about pursing uniqueness for the sake of being different but about understanding the product or service and the customer.

Pearce and Robinson, 1998 states that the focus strategy is the extent to which a business concentrates on a narrowly defined market. Focus lets a business to learn its target customers, their needs, special considerations they want accommodated and to establish personal relationships in ways that differentiate the smaller firm or make it more valuable to the target customer. According to Hill and Jones (1999), focus strategy concentrates on serving particular market niche which can be defined geographically by the type of customer or by segment of the product line. It is directed towards serving the needs of a limited customer group or a segment hence the company is specialized in some way. This strategy focuses on a particular buyer group, segment of the product line, or geographic market; as with differentiation, focus may take many forms. The low cost and differentiation strategies are aimed at achieving their objectives industry wide, where as the focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind (Porter 1998). Porter postulates that a firm that does not develop at least one of the three generic strategies is stuck in the middle. This he says is an extremely poor strategic situation where the firm is almost guaranteed poor returns. It loses on the high volume low margin customers as well as the low volumes high returns customers. Once stuck in the middle, it takes time and sustained efforts to get the firm out of this position. Therefore, firms should avoid being stuck in this position.

Risks of generic strategies

No single competitive strategy is guaranteed to achieve success, and even some companies that have successfully implemented one of the Porter's competitive strategies found that they could not sustain the strategy (Hunger and Wheelen 1995).

Cost advantage, despite its advantages imposes severe burdens on the firm to keep up its position, which means reinvesting in modern equipment, ruthlessly scrapping of obsolete assets, avoiding product line proliferation and being alert for technological improvements. According to (Porter 1998) the following risks are associated with the three generic strategies. Cost leadership is venerable to risks such as technological change that nullifies past investments or learning, low cost learning by industry newcomers or followers, through imitation or through their ability to invest in statement of-the-art facilities, inability to see required product or marketing change because of the attention placed on cost; inflation in costs that narrow the firm's ability to maintain enough of a price differential to offset competitors' brand images or other approaches to differentiation.

Differentiation strategy involves risks such as; the cost differential between low-cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty. Buyers thus sacrifice some of the features, services, or image possessed by the differentiated firm for large cost savings; buyers' need for the differentiating factor falls. This can occur as buyers become more sophisticated; imitation narrows perceived differentiation which is a common occurrence as industries mature.

Focus strategy also faces certain risks. In course of some time, the differences in desired products or services between the strategic target and the market as a whole narrows; the competitors find sub markets within the strategic target and out focus the focuser, and also cost differential between broad range competitors and the focused firm widens to eliminate the cost advantages of serving a narrow target or to offset the differentiation achieved by focus.

2.5 Diversification and Marketing Strategies

Diversification is a growth strategy in which an organization could seek new products that have technological and/or marketing synergies with existing product lines, even though the products may appeal to a new class of customers (concentric); or it might search for new products that could appeal to its current customers though technologically unrelated to its current product line (horizontal); or it could seek new products that have no relationship to its current technology, products, or markets (conglomerate), (Pearce and Robinson, 1997)

Various studies have been carried out on how marketing strategies affect the performance of the firm. Aggressiveness is concerned with the interaction between an organization and its competitors. The strategy reflects degree of competitiveness (or competitive posture) in relation with competing organizations. Early PIMS studies (Buzzell, Gale, and Sultan 1975), prescriptions grounded in the growth-share matrix (Boston Consulting Group 1972), and Porter's (1980) generic cost leadership strategy emphasize the importance of aggressiveness in seeking market share. Kotler and Achrol (1981) describe attack strategies aimed at increasing market shares.

Defensiveness, adaptability, and specialization focus on the interaction between an organization and its customers. Defensiveness refers to the emphasis placed on preserving current products and markets. Fornell and Wernefelt (1988) indicate that defensive marketing strategy involves reducing customer exit and product/brand switching through switching barriers and customer satisfaction. Defensiveness also reflects the notion of defense, (Kotler and Achrol 1981) and hold (Buzzell, Gale and Sultan 1975) strategies aimed at holding current customers and thereby maintaining relative market share. Adaptability reflects the extent to which a business attempts to identify and capitalize on emerging market opportunities. It reflects the key dimensions underlying the Miles and Snow (1978) strategic typology (Mckee, Varadarajan, and Pride 1989). Specialization reflects the extent to which a business attempts to create unique product (or set of products) that is perceived by consumers as clearly superior in value. Specialization, generally termed as differentiation, has been suggested a key strategy dimension in marketing (Abell 1980), business policy (Hall 1980) and industrial organization economics (Porter 1980) literature.

2.6 Firm Performance

Performance is a measure of results achieved. A creative distinctive strategy that sets a company apart from its rivals and yields a competitive advantage is the company's most reliable ticket for earning above average performance. Without this, a company risks being out competed by stronger rivals and/or being locked into the mediocre financial performance (Thompson et al. 2007). The performance of any business organization is affected by the strategies in place within that organization (Mutuku 2005). Hunger and Wheelen (1995) say that strategies determine the long term performance of the firm.

Performance is measured in terms of how well an organization is able to meet its defined objectives. Objective can be measured in dimensions such as cost, quality, delivery and flexibility (Hax Majluf 1996). Business firms have specific goals and objectives which they aim to achieve and these differ among the firms (Ansoff and McDonnell 1990). As discussed earlier, the objectives can be measured by use of various tools such as the balance scorecard. Two distinct types of performance yardsticks are required – financial and strategic objectives. Financial objectives relate to the financial performance targets that the management has established for the organization to achieve and those relating to strategic objectives relate to target outcomes that indicate that a company is strengthening its market standing, competitive vitality, and future business prospects. Financial objectives involve increase in annual revenues, annual increase in after tax profits, increase in earnings per share, annual dividend increases, larger profit margins, sufficient internal cash flow to fund new capital investment, a certain percentage return on capital employed or on return on equity and increased shareholder value. Strategic objectives include achieving lower overall costs than rivals, winning a certain percentage market share, overtaking key competitors on product performance or quality or customer service, achieving technological leadership, strengthening the company's brand name appeal, having stronger national or global sales and distribution capabilities than rivals and consistently getting new or improved products to market ahead of rivals. A company that pursues and achieves strategic outcomes that boost its competitiveness and strength in the market place is in a much better position to improve its future financial performance (Thompson and Strickland 2003).

Pearce and Robinson (1998), state that profitability is the mainstay goal of a business organization. No matter how profit is measured or defined, profit over the long term is the clearest indication of a firm's ability to satisfy the principal claims and desires of employees and stockholders. Profitability is the most commonly studied dimension of organizational performance (Capon, Farley & Hoeing 1990). Return on Equity shows the return stockholders are earning on their investment in the firm.

2.7 Link between Competitive Strategies and Firm Performance

Strategies do not always lead to improved performance (Campell and Marcus 1997). These scholars stated that strategic plan has become almost as common a management tool as the budget but few executives are satisfied with it. Many planning sessions result into no new actions and plans themselves often end up buried in bottom drawers. Most planning processes are received with groans rather than cheers.

Ansoff and McDonnell 1990), state that in the business firms, concern with explicit formulation of strategy is relatively recent. They give examples of deliberate and successfully use of strategy by different firms. They cite an example of an extensive study of an American firm's strategy on mergers and acquisition where it was found that deliberate and systematic preplanning of acquisition strategy produced significantly better financial performance than unplanned, opportunistic, adaptive approach.

Nguulu, (2006) in his study of relationship between strategic management and performance of the manufacturing firms in Kenya clearly established that the level (state) of strategic management affected performance of the tea manufacturing companies in Kenya. Those firms that did not practice strategic management performed poorly than the ones that did and the performance improved as the degree of success in strategy implementation increased.

Both conceptual and empirical literature stated above does not reveal a conclusive relationship between competitive strategy and performance and this therefore necessitates the need for further research.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter explains the procedures that are employed in fulfilling the objectives of the study and answering the research question. It explains the type and rationale for the research design, the method of data collection and data analysis.

3.2 Research Design

This is a descriptive survey aimed at establishing the competitive strategies that are used by the major oil firms in Kenya to enhance their performance. A descriptive survey is considered more appropriate because this study involves relationships and comparative analysis. Descriptive studies are concerned with finding out who, what, where, when, or how much of a phenomena (Cooper and Schindler, 2003). According to (Magenta and Magenta, 1999), a descriptive research describes such things as possible behavior, attitudes, values and characteristics.

3.3 The Population

The population of interest in this study consists of a census of the five major oil companies operating in Kenya that have a substantial market share of over 10% by June, 2009 as shown in table 1. These are Kenol Kobil 23.1%, Shell BP 18.8%, Total 14.8%, Chevron 10.1% and Oilibya 10.0%. The research will be conducted in Nairobi where the companies have their headquarters and where all the information required is readily available.

3.4 Data Collection Methods

The study will use both primary and secondary data. The primary data will be collected by use of a semi-structured questionnaire containing both open-ended and closed questions. Secondary data will be collected from the quarterly published industry magazine (Petroleum Insight). The questionnaire will be used to guide the personal interview and where not possible it will be self-administered. The questionnaire will be divided into three sections, section A will have general information about the organizations, section B will contain questions relating to the competitive strategies adopted by the firms while section C will have information on performance of the firms. The questionnaire will target Marketing Managers or Commercial Managers within the organization since the responsibility of strategy implementation is vested at their level. The questionnaires will be delivered to the respondents through mail service. Where necessary, the manager's will be interviewed for clarity of the information.

3.5 Data Analysis

The content of data collected will be checked for completeness and consistency before analysis. The mode of data analysis will be descriptive statistics such as frequencies, mean scores, standard deviations and percentages. Nachmias and 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 to trends. By performing content analysis, a clear understanding of respondents' answers will be obtained. The same type of instrument was used in similar researches done earlier by, Murage (2000), Chepkwony (2001), Isaboke (2001) and Mwangi (2007).

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1. Introduction

This study was a census survey whose objective was to establish the relationship between competitive strategies and performance of the oil firms in Kenya. The response rate was 100% since data was obtained from all targeted firms. The findings are presented in form of tables, frequencies, means, standard deviations and percentages. The relationship between the two key variables i.e. competitive strategy and performance was tested using person's correlation analysis.

4.2 The Firm's Profiles

Table 1: Number of years the firm has been in operation

Year	Frequency	Percentage
1913	1	20.0
1936	1	20.0
1955	1	20.0
1959	1	20.0
2006	1	20.0
Total	**5**	**100.0**

Table 1 shows the finding on when the firms started operations in Kenya. 20% of the firms indicated that they started their operations in Kenya in 1913, 1936, 1950, 1959 and 2006, respectively. The summary data shows that that majority (80%) of the organizations have been in operation for more than 50 years.

Table 2: Ownership

The ownership of an organization is very important because it determines who and how strategy is adapted in the organization.

Ownership	Frequency	Percentage
Local	1	20.0
Multinational	2	40.0
Other	2	40.0
Total	**5**	**100.0**

Table 2 shows that majority of the companies (80)% are multinationals and other joint ownership while a small portion (20%) is local ownership.

Table 3: Listing in the Nairobi Stock Exchange

	Frequency	Percentage
Yes	2	40.0
No	3	60.0
Total	**5**	**100.0**

The research findings in table 3 show that (60%) of the companies are not quoted in the Nairobi Stock Exchange while (40%) are listed.

Table 4: Marketing Channels

	Frequency	Percentage
Industrial Consumers	0	0.0
Distributors and Resellers	0	0.0
Retailers	0	0.0
All	5	100.0
Total	**5**	**100.0**

The research shows that all the five companies used all the available marketing channels to sell the products to the customers. This implies that one channel cannot sustain the sales.

Table 5: Type of Markets Served

	Frequency	**Percentage**
Local Markets Only	1	20.0
Local and Exports	4	80.0
Exports	0	0.0
Total	**5**	**100.0**

Table 5 shows that the majority of the companies (80%) serve both local and export markets, while a small portion of (20%) serve local markets only.

4.3. Competitive Strategies

Table 6: Level of Competition

Level of Competition	**Frequency**	**Percentage**
Very Intense	5	100.0
Fairly Intense	0	0.0
Intense	0	0.0
Low Intense	0	0.0
Negligible	0	0.0
Total	**5.0**	**100.0**

Table 6 shows that all the firms are currently facing very intense level of competition.

Table 7: Mean Scores and Standard Deviations for the influence of Liberalization on the intensity of competition in the Industry

	Mean	Std. Deviation
Demographic Condition	2.7	.957
Pricing	5.0	.000
Marketing Channels	3.6	.547
Type of Markets	3.2	.957
Political /legal factors	3.0	.707

The study sought to investigate the extent to which liberalization had intensified competition in the industry. From the findings in table 7, the researcher found that after liberalization, price intensified competition to a very large extent, and marketing channels intensified competition to a large extent as shown by a mean score of 3.6. Other factors that intensified competition to a moderate extent were type of markets shown by a mean score of 3.2, political/legal factors shown by a mean score of 3.0 and demographic condition as shown by a mean score of 2.7.

Table 8: Mean Scores and Standard Deviation for the extent to which each competitive strategy is used by the firms

	Mean	Std. Deviation
Market Focus	4.6	.547
Cost Leadership	3.8	1.095
Diversification	4.0	.707
Market Development	3.6	.547
Product Development	4.0	.707
Mergers/Acquisition	4.0	1.224
Strategic Alliances	3.8	.836

The results in table 8 indicate that all the strategies given i.e. Market focus, cost leadership, diversification, market development, product development, mergers/acquisition and strategic alliances were applied to varying degrees to attract customers. As shown above, market focus was the most applied strategy as reflected by a mean score of 4.6 out 5, diversification and product development each at 4.0, cost leadership 3.8 while the lowest was market development at 3.6.

Table 9: Extent to which Differentiation Strategy is applied by the Firms

	Mean	Std. Deviation
Location of Sales Outlets	4.6	.547
Improvement of Customer Service	4.8	.447
Branding	4.6	.547
Customer Complaints Procedure	4.2	.836
Advertisements	3.2	.836

The study also sought to investigate the extent to which differentiation strategy was applied by the firms. Most of the respondents reported that the most important factors adopted to attract customers were improvement of customer service shown by a mean score of 4.8, Location of Sales Outlets and Branding shown by a mean score of 4.6 in each and Customer Complaints Procedure as shown by a mean score of 4.2. Advertisement was important to a moderate extent as indicated by a mean score of 3.2.

Table 10: Extent to which Pricing Strategy is applied by the Firms

	Mean	Std. Deviation
Keeping your prices higher than competition	2.6	.547
Keeping your prices same as competition	4.2	.447
Keeping your prices lower than competition	2.8	.447
Charging low prices to increase sales volume	2.6	.547
Offering volume discounts	3.8	.447
Offering extended credit term to customers	3.4	1.140

Table 10 showed the extent to which pricing strategy was applied by the firms to attract customers. Most of the respondents indicated that keeping prices same as competition to attract customers was a very important factor shown by a mean score of 4.2 while other important factors were offering volume discounts and offering extended credit terms with means scores of 3.8 and 3.4. Other factors i.e. keeping prices lower than competition, keeping prices higher than competition and charging low prices to increase sales volume were shown to be neither important with an average mean score of 2.6.

Table 11: Extent to which social responsibility strategy is applied by the Firms

	Mean	Std. Deviation
HIV/Aids Campaigns	3.4	.547
Events Sponsorship	4.0	.707
Environment, Health and Safety Issues	4.8	.447
Sponsoring Students	3.4	1.140

Table 11 shows the extent to which social responsibility strategy was applied by the firms to attract customers. On adopting social responsibility to attract customers the results showed that the majority of the firms considered Environment, Health and Safety issues to be very important as indicated by a mean score of 4.8. Events sponsorship was also considered to be relatively important with a mean score of 4.0 while sponsoring students and HIV/Aids campaigns were considered neither important with a mean of 3.4.

Table 12: Extent to which Distribution Strategy is applied by the Firms

	Mean	Std. Deviation
Use of various distribution channels	4.6	.547
Opening of new stations at strategic areas	4.2	.836
Use of Reseller/Distributors	4.2	.836

Table 12 indicates the extent to which distribution strategy was applied by the firms to attract customers. The use of various distribution channels was considered important with the highest mean score of about 4.6, while opening of new stations at strategic areas and use of reseller/distributors was also considered relatively important with a mean score of 4.2.

Table 13: Extent to which Product Strategy is applied by the Firms

	Mean	Std. Deviation
Having customer feedback system	4.40	.547
Offering after sales service	3.80	.447
Introduction of new products	3.40	.547
Emphasis on product contamination checks	4.80	.447

The study sought to find out the extent to which product strategy was applied to attract customers. The findings in table 13 indicated that the researcher found out that emphasis on product contamination checks, having customer feedback system and introduction of new products were important in attracting customers in majority of the companies as they had a high mean of 4.8, 4.4 and 3.8 respectively, while offering after sales service had a mean score of 3.4, which means that it was neither important or not important.

4.4. Performance Measures

Table 14: Sales Turnover in Metric Tones (2004 - 2008)

FIRM	2004	2005	2006	2007	2008
Libya Oil	306,659	226,725	263,943	218,654	252,326
Chevron Kenya	345,456	462.871	435,099	395,117	331,458
Kenya Shell	460,370	471,500	531,535	648,693	647,546
Kenya Oil	381,934	518,909	533,452	541,375	755,631
Total Kenya	512,544	594,909	546,484	632.255	606,673
Total	**2,006,963**	**2,274,914**	**2,310,513**	**2,436,094**	**2,593,634**

Table 14 above shows that there had been an upward trend in the sales turnover over the last five years with the highest sales of 2,593,634 metric tones from a minimum of 2,006,963 metric tones. This implies that even with the entry of the independent companies, the major oil firms have maintained their competitive advantage.

Table 15: Means Scores and Standard Deviation on the extent to which competitive strategies influenced Sales Turnover

	Mean	Std. Deviation
Differentiation	4.2	.447
Diversification	3.2	.447
Cost Leadership	3.4	1.516
Market Development	3.8	.836
Mergers/Acquisition	3.8	1.095
Strategic Alliances	3.4	.547

The respondents were asked to indicate the extent to which competitive strategies influenced sales Turnover. The findings presented in table 15 indicated that majority of the firms, used differentiation as a way of creating a unique image from the other firms as shown by a mean score of 4.2. Other strategies used were mergers/acquisition and market development which had a mean of 3.8. Other factors i.e. cost leadership, strategic alliances, and diversification had an average mean score of 3.4.

Table 16: Market Share of each Firm in Percentage (2004 – 2008)

	2004	**2005**	**2006**	**2007**	**2008**
Libya Oil	12.00	8.40	10.90	7.90	8.70
Chevron Kenya	14.00	17.00	15.60	13.30	10.70
Kenya Shell	19.90	17.20	19.60	22.70	21.70
Kenya Oil	15.90	18.40	17.70	17.00	25.70
Total Kenya	20.70	21.80	19.60	21.20	19.60
Other	17.50	17.20	16.60	17.90	13.60
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Table 16 indicates the market share for each firm. All the firms had varying percentages, which indicated that the market shares had not been consistent over the years. This can be explained by the fact that various strategies had been adopted over the years. There had been mergers and acquisitions in Libya Oil, Chevron and Kenya Oil. The various strategies that had been adopted are discussed here below.

Table 17: Means Scores and Standard Deviation on the extent to which competitive strategies influenced market share

	Mean	Std. Deviation
Differentiation	4.2	.447
Diversification	3.4	1.673
Cost Leadership	3.4	.547
Market Development	3.4	.894
Mergers/Acquisition	3.6	1.516
Strategic Alliances	3.6	.547

The study required the respondents to indicate the strategies employed to increase the market share. The responses indicated that differentiation was very important with a mean score of 4.2 followed by mergers/acquisition and strategic alliances at mean score of 3.6. Other strategies such as diversification, cost leadership and market development had a mean score of 3.4.

Table 18: Net Profit over the last five years (2004 – 2008)

	2004	**2005**	**2006**	**2007**	**2008**
Kenya Oil	838.00	903.00	842.00	593.00	1,155.00
Total Kenya	577.00	532.00	486.00	524.00	704.00

The respondents were asked to indicate the net profit for their firms. Table 18 showed that out of the five firms, only two indicated their net profit. The researcher had a challenge obtaining the data on profit because the private companies were not willing to disclose the information as they considered it confidential. The table shows the net profit for the companies that have been quoted in the Nairobi Stock Exchange. It was therefore not possible to find a relationship between competitive strategies and performance of oil firms using this data.

4.5. Competitive Strategies and Performance

The information below gives the results obtained after testing the relationship between competitive strategies and performance. The results were tested by using the average figures of market share and sales turnover for the five years 2004 to 2008.

Table 19: Correlation between Differentiation Variables and Average Market Share

Differentiation Variables		**Correlation Coefficient (r)**	**Mean**	**Std Deviation**
Location of the sales outlet	Pearson Correlation	.250	4.4	0.894
	Sig. (2-tailed)	.685		
Improvement of customer service	Pearson Correlation	-.250	4.4	1.342
	Sig. (2-tailed)	.685		
Branding	Pearson Correlation	.086	4.2	1.304
	Sig. (2-tailed)	.891		
Customer complaints	Pearson Correlation	-.514	3.8	1.304
	Sig. (2-tailed)	.375		
Advertisements	Pearson Correlation	-.456	3.0	1.225
	Sig. (2-tailed)	.440		

In table 19, the researcher tested the relationship between differentiation variables and the market share performance. The results showed that location of sales outlet had a positive weak correlation with increase in market share at 0.25. This was followed by branding at 0.086 while all the other variables had a negative correlation.

Table 20: Correlation between Price Variables and Average Market Share

Price Variables		Correlation Coefficient (r)	Mean	Std Deviation
Keeping your prices higher than competition	Pearson Correlation	-.408	2.6	0.447
	Sig. (2-tailed)	.495		
Keeping your prices same as competition	Pearson Correlation	.250	4.2	0.548
	Sig. (2-tailed)	.685		
Keeping your prices lower than competition	Pearson Correlation	-.250	2.8	0.447
	Sig. (2-tailed)	.685		
Charging low prices to increase sales volume	Pearson Correlation	-.408	2.6	0.548
	Sig. (2-tailed)	.495		
Offering volume discounts	Pearson Correlation	-.250	3.8	0.447
	Sig. (2-tailed)	.685		
Offering extended credit terms to customers	Pearson Correlation	.196	3.4	1.140
	Sig. (2-tailed)	.752		

The results in table 20 showed that keeping prices same as competition and offering extended credit terms to customers had a weak positive correlation with increase in market share at 0.250 and 0.196, respectively while all the other variables had a negative correlation.

Table 21: Correlation between Product Variables and Average Market Share

Product Variables		Correlation Coefficient (r)	Mean	Std Deviation
Having Customer feedback system	Pearson Correlation	-.612	4.4	.548
	Sig. (2-tailed)	.272		
Offering after sales service	Pearson Correlation	-.250	3.8	0
	Sig. (2-tailed)	.685		
Introduction of new products	Pearson Correlation	.408	3.4	.548
	Sig. (2-tailed)	.495		
Emphasis on product contamination checks	Pearson Correlation	-.250	4.8	.447
	Sig. (2-tailed)	.685		

Table 21 above indicated that there was a significant correlation between introduction of new products and the market share as the correlation value was 0.408. All the other product variables indicated a negative correlation.

Table 22: Correlation between Differentiation Variables and Average Sales

Differentiation variables		Correlation Coefficient (r)	Mean	Std Deviation
Location of the sales outlet	Pearson Correlation	-.108	4.4	0.894
	Sig. (2-tailed)	.863		
Improvement of customer service	Pearson Correlation	.036	4.4	1.342
	Sig. (2-tailed)	.954		
Branding	Pearson Correlation	-.062	4.2	1.304
	Sig. (2-tailed)	.921		
Customer complaints	Pearson Correlation	-.395	3.8	1.304
	Sig. (2-tailed)	.510		
Advertisements	Pearson Correlation	-.167	3.0	1.225
	Sig. (2-tailed)	.788		

The results in table 22 indicated that improvement of customer service had a relatively weak correlation on sales performance at 0.036 while all the other differentiation variables had a negative correlation.

Table 23: Correlation between Price Variables and Average Sales

Price Variables		Correlation Coefficient (r)	Mean	Std Deviation
Keeping your prices higher than competition	Pearson Correlation	.101	2.6	0.548
	Sig. (2-tailed)	.871		
Keeping your prices same as competition	Pearson Correlation	-.818	4.2	0.447
	Sig. (2-tailed)	.091		
Keeping your prices lower than competition	Pearson Correlation	.036	2.8	0.447
	Sig. (2-tailed)	.954		
Charging low prices to increase sales volume	Pearson Correlation	.697	2.6	0.548
	Sig. (2-tailed)	.191		
Offering volume discounts	Pearson Correlation	.036	3.8	0.447
	Sig. (2-tailed)	.954		
Offering extended credit terms to customers	Pearson Correlation	.508	3.4	1.140
	Sig. (2-tailed)	.382		

Table 23 indicated that the variable, charging low prices to increase sales volume, displayed a relatively strong positive relationship with sales at 0.697 followed by offering extended credit terms to customers at 0.508. Other variables such offering volume discounts and keeping prices lower than competition each at 0.036 and keeping prices higher than competition at 0.101 indicated a weak positive relationship. Keeping prices same as competition indicated a negative relationship at -.818.

Table 24: Correlation between Product Variables and Average Sales

Product Variables		Correlation Coefficient (r)	Mean	Std Deviation
Having Customer feedback system	Pearson Correlation	.131	4.4	0.548
	Sig. (2-tailed)	.834		
Offering after sales service	Pearson Correlation	-.693	3.8	0.447
	Sig. (2-tailed)	.194		
Introduction of new products	Pearson Correlation	-.133	3.4	0.548
	Sig. (2-tailed)	.831		
Emphasis on product contamination checks	Pearson Correlation	.818	4.8	0.447
	Sig. (2-tailed)	.091		

The results of the study in table 24 indicated that the variable emphasis on product contamination checks had a strong positive relationship with increase in sales at 0.818 while having customer feedback at 0.131 had a weak relationship. Offering after sales service and introduction of new products had a negative relationship at -.693 and -.133 respectively.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendation of the study based on the objective of the study. The objective of this study was to establish the relationship between competitive strategies and performance of the oil firms in Kenya.

5.2 Summary of the Findings

From the study, it was found out that the level of competition in the firms was very intense. According to the study, the factors that intensified competition after liberalization were pricing, marketing channels, type of markets, political/legal factors and demographic condition. The study also revealed that market focus, cost leadership, diversification, market development, product development, mergers/acquisition and strategic alliances were applied in most of the companies to attract customers. The differentiation variables that were adopted by the companies to attract customers included improvement of customer service, location of sales outlets, branding, customer complaints procedure and advertisements. The majority of the respondents indicated that keeping prices same as competition, offering volume discounts and offering extended credit terms were the factors adopted to attract customers. On social responsibility, Environment, Health and Safety issues and Events sponsorship were considered to be very important in attracting customers. The distribution factors that were considered by the firms to be important in attracting customers were the use of various distribution channels, opening of new stations at strategic areas and use of reseller/distributors was also considered relatively important. On product service, the factors that were important in attracting customers were product contamination checks, having customer feedback system and introduction of new products

Further, the study found that there was an upward trend in the sales turnover over the last five years, although the trend was not consistent throughout the years. The performance measures that were used to increase sales were differentiation, mergers/acquisition and market development. The strategies adopted to influence the market share were differentiation, mergers/acquisition and strategic alliances.

The study also found out that there was a weak positive correlation between differentiation strategy and the increase in market share which implies that differentiation strategy does not significantly contribute to the increase in market share. It was found out that extending credit terms to customers had a weak correlation to increase in market share. On the relationship between product variables and market share performance, there was a moderate correlation between introduction of new products and the market share. The study also found that there was a relatively weak relationship between improvement of customer service and increase in sales. Charging low prices to increase sales volume displayed a relatively strong positive relationship with increase in sales, while offering credit terms to customers also indicated a positive correlation.

5.3 Conclusion

In conclusion, the study found out that most of the companies employed the competitive strategies in order to cope with the competitive environment. The most commonly used strategies were differentiation, market focus, diversification, product development and mergers and acquisition. Cost leadership was also in use but to a limited extent.

5.4 Recommendations

From the findings of the study, differentiation strategy seems to be the strategy most employed by the oil firms. Some of the variables of differentiation strategy indicated a positive relationship with performance. The study recommends that the oil companies in Kenya should fully embrace the competitive strategies to improve performance.

5.5 Suggestions for further Research

The researcher recommends that further studies should be conducted in other types of industries to establish whether the same factors affect performance in those industries.

REFERENCES

Ansoff, H.I., & McDonnell, E.J. (1990). Implanting Strategic Management, 2nd Edition, Europe, Prentice Hall

Banker, R.D., Janakiraman, S.N., & Konstans, C. (2001). Balanced Scorecard: Linking Strategy to Performance, Financial Analysts Journal, Vol.53 No. May/June, pp. 11-20

Basil, O. O. (2006). Strategy implementation by Major Petroleum companies in Kenya : Unpublished MBA Project. University of Nairobi

Burnes, B.(2000). Managing Change: A Strategic Approach to Organizational Dynamics 2000, 3rd Edition, London, Prentice Hall

Chandler, A.D. (1962). Strategy and Structure, Chapters in the History of American Industrial Enterprises, Cambridge, MIT Press

Chepkwony, J. (2001). Strategic Responses of Petroleum Firms in Kenya to Challenges of Increased competition in the Industry: Unpublished MBA Project. University of Nairobi

Eli, S. (1987). Strategy, Strategy Making, and Performance, An Empirical Investigation, Strategic Management Journal, Vol. 33, No. 2 pp. 258-269

Gichohi, B. W. (2007). The Influence of competitive Strategies on the Performance of Hair Salons in Nairobi: Unpublished MBA Project. University of Nairobi

Gordon, T.G. (2002). Marketing Strategies and Competitive Environment as Determinants of Business Performance, A case study of American Manufacturers: Strategic Management Journal

Hax, C.A., & Majluf, N. S. (1996). The Strategy Concept and Process: A Pragmatic Approach, Second Edition, New Jersey, Prentice Hall

Hill, C. W., & Jones, G.R. (2001). Strategic Management Theory: An Integrated Approach, 5th Edition, Houghton Mifflin Company

Hunger, J.D., & Wheelen, T.L. (1995). Strategy Management, 5th Edition, , New York, Addison Wesley Publishing Company

Isaboke, S. (2001). An Investigation of the Strategic Responses by Major Oil Companies in Kenya to the Threat of New Entrants: Unpublished MBA Project. University of Nairobi

Johnson, G., & Scholes, K. (2002). Exploring Corporate Strategy, 6th Edition, , New Delhi, Prentice Hall

Kariuki, D.N. (2006). A Survey of Competitive Strategies and Performance of the Five Stars Hotels in Kenya: Unpublished MBA Project. University of Nairobi

Kotler, Philip, & Achrol R. S. (1981). Marketing Warfare in the 1980s, Journal of Business Strategy, 10 (Winter), 3041.

Mintzberg, H., & Quinn, J.B. (1991). The Strategy Process, Second Edition, Prentice Hall International, Inc

Miles, Raymond E., & Snow, C.C (1978). Organizational Strategy, Structure, and Process, New York: McGraw-Hill

Manyuru, J.P (2005). Corporate Governance and Organizational Performance of the Companies quoted at the Nairobi Stock Exchange: Unpublished MBA Project. University of Nairobi

Mwangi, M.W. (2007). Strategies used by the major oil companies to create competitive advantage for their service stations in Nairobi: Unpublished MBA Project. University of Nairobi

Nguluu, T.N. (2006). Relationship between Strategic Management and Performance of the Manufacturing Firms in Kenya, Unpublished MBA Project. University of Nairobi

Pearce, J.H II & Robison, R.B. Jr. (2003). Strategic Management: Formulation Implementation and Control: 8th Edition, New York , Mc Graw-Hill/Irwin

Porter, M.E. (1998). Competitive Advantage: Creating and Sustaining Superior Performance: New York ,The Free Press

Porter, M.E. (1998). Competitive Strategy: Techniques for Analyzing Industries and Competitors, The Free Press, New York

Robert, D. B. (2003). Why Measure Performance, Different Purposes Require Different Measures, Strategic Management Journal, Vol. 63, No. 5, pp.586-606

Thompson, A., & Strickland, A.J. (1998). Strategic Management: Concepts and Cases, Irwin, New York

Wanjiku, M. (2009). Oil industry Report. Petroleum Institute of East Africa

APPENDIX 1: INTRODUCTION LETTER

October 8, 2009

Dear Sir/Madam,

A SURVEY OF THE INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF OIL FIRMS IN KENYA

I am a student at the University of Nairobi pursuing a postgraduate programme, Master of Business Administration. In partial fulfillment of the requirement to the award of the MBA degree, I am required to undertake a research paper. You are kindly requested to complete the attached questionnaire.

The information provided is strictly for academic purposes and will be handled with utmost confidence.

Your assistance and co-operation will be highly appreciated.

Yours faithfully

Margaret Wairegi

APPENDIX 2: LIST OF OIL COMPANIES IN KENYA

1. Addax K Limited.
2. Bakri Kenya Limited.
3. BP Kenya Limited.
4. Caltex Oil Company Limited.
5. Dalbit Oil Company Limited.
6. Engen Oil Kenya Limited.
7. Fossil Oil Kenya Limited.
8. Galana Oil Kenya Limited.
9. Global Oil Kenya Limited.
10. Gulf Energy Kenya Limited.
11. Hashi Empex Kenya Limited.
12. Hass Oil Kenya Limited.
13. Intoil Kenya Limited.
14. Kenol Kenya Limited.
15. Kobil Kenya Limited.
16. Mafuta Kenya Limited.
17. Metro Oil Kenya Limited.
18. National Oil Corporation of Kenya.
19. Petro Oil Kenya Limited.
20. Riva Oil Kenya Limited.
21. Shell Oil Kenya Limited.
22. Tamoil Kenya Limited.
23. Tecaflex Kenya Limited.
24. Total Kenya Limited.
25. Triton Oil Kenya Limited.

Source: Petroleum Insight. The Magazine of the Petroleum Institute of East Africa (PIEA), July-September 2009

APPENDIX 3: QUESTIONNAIRE

SECTION A: COMPANY GENERAL INFORMATION

1. Name of your organization ______________________________

2. Year of incorporation ______________________________

3. Ownership (please tick one)

   Local ( ) Multinational ( ) Other ( )

4. Is your company quoted at the Nairobi Stock Exchange?

   Yes ( ) No ( )

5. What marketing channels do you use?

Industrial Consumers ( ) Distributors and Resellers ( ) Retailers ( ) All ( )

6. Markets served (tick one)

   Local markets only ( ) Local and Exports ( ) Exports ( )

SECTION B: COMPETITIVE STRATEGIES USED

1. How would you describe the competition your company is currently facing (please tick one)

5- Very intense ( ) 4- Fairly intense ( ) 3-Intense ( ) 2 - Low intense 1-Negligible ( )

2. To what extent has liberalization intensified competition in the Industry?

If very intense, what factors do you think led to this?

	5	4	3	2	1
a) Demographic conditions	( )	( )	( )	( )	( )
b) Pricing	( )	( )	( )	( )	( )
c) Marketing channels	( )	( )	( )	( )	( )
d) Type of markets	( )	( )	( )	( )	( )
e) Political legal factors	( )	( )	( )	( )	( )

3. Using the scale provided, rate the extent to which your company applies each of the following strategies to attract customers. The scale points stand for the following:

5- Very important 4- Important 3 – Neither 2-Not important 1-Very unimportant

	5	4	3	2	1
a) Differentiation	( )	( )	( )	( )	( )
b) Market focus	( )	( )	( )	( )	( )
c) Cost Leadership	( )	( )	( )	( )	( )
d) Diversification	( )	( )	( )	( )	( )

	5	4	3	2	1
e) Market development	( )	( )	( )	( )	( )
f) Product development	( )	( )	( )	( )	( )
g) Mergers/Acquisition (please specify)__________	( )	( )	( )	( )	( )
h) Strategic alliances (please specify) ___________	( )	( )	( )	( )	( )
i) Others (please specify______________________	( )	( )	( )	( )	( )

Differentiation

	5	4	3	2	1
a) Location of the sales outlets	( )	( )	( )	( )	( )
b) Improvement of customer service	( )	( )	( )	( )	( )
c) Branding	( )	( )	( )	( )	( )
d) Customer complaints procedure	( )	( )	( )	( )	( )
e) Advertisements	( )	( )	( )	( )	( )

Price

	5	4	3	2	1
a) Keeping your prices higher than competition	( )	( )	( )	( )	( )
b) Keeping your prices same as competition	( )	( )	( )	( )	( )
c) Keeping your prices lower than competition	( )	( )	( )	( )	( )
d) Charging low prices to increase sales volume	( )	( )	( )	( )	( )
e) Offering volume discounts	( )	( )	( )	( )	( )
f) Offering extended credit terms to customers	( )	( )	( )	( )	( )

Social Responsibility

	5	4	3	2	1
a) HIV/Aids Campaigns	( )	( )	( )	( )	( )
b) Events Sponsorship	( )	( )	( )	( )	( )
c) Environment, health and safety issues	( )	( )	( )	( )	( )
d) Sponsoring students	( )	( )	( )	( )	( )
e) Others (please specify)_______________	( )	( )	( )	( )	( )

Distribution

a) Use of various distribution channels	( )	( )	( )	( )	( )
b) Opening of new stations at strategic areas	( )	( )	( )	( )	( )
c) Use of Resellers/Distributors	( )	( )	( )	( )	( )
d) Others (please specify)_______________	( )	( )	( )	( )	( )

Product Service

a) Having customer feedback system	( )	( )	( )	( )	( )
b) Offering after sales service	( )	( )	( )	( )	( )
c) Introduction of new products	( )	( )	( )	( )	( )
d) Emphasis on product contamination checks	( )	( )	( )	( )	( )

SECTION C: PERFORMANCE MEASURES

1. Indicate your firm's average sales turnover (metric tones) for the last five years:-

2004	____________
2005	____________
2006	____________
2007	____________
2008	____________

To what extent did the following strategies have lead to the sales turnover presented in item 1 above?

	5	4	3	2	1
Differentiation	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
Cost Leadership	( )	( )	( )	( )	( )
Market development	( )	( )	( )	( )	( )
Mergers/Acquisition	( )	( )	( )	( )	( )
Strategic alliances	( )	( )	( )	( )	( )

2. Please indicate the market share (%) for your organization for the last five years.

2004	____________
2005	____________
2006	____________
2007	____________
2008	____________

What strategies has your organization employed to increase its market share?

5- Very important 4- Important 3 – Neither 2-Not important 1-Very unimportant

	5	4	3	2	1
Differentiation	( )	( )	( )	( )	( )
Cost Leadership	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
Market development	( )	( )	( )	( )	( )
Mergers/Acquisition	( )	( )	( )	( )	( )
Strategic alliances	( )	( )	( )	( )	( )
Others (please specify_____________________	( )	( )	( )	( )	( )

3. Please indicate the Net profit for your organization over the last five years

Profit in Million Kenya shillings

2004 _____________

2005 _____________

2006 _____________

2007 _____________

2008 _____________

Thank you for your response and cooperation.