

**PROCUREMENT PRACTICES AND PERFORMANCE OF THE OIL
MARKETING FIRMS IN KENYA**

GITHAIGA MERCY WAMBUI

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DECLARATION

This research project is my original work and has not been submitted for any award of degree in any other University or institution for any other purpose.

Signature Date

Githaiga Mercy Wambui

D61/79803/2012

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

Signature Date

Mr. Michael K. Chirchir.

Lecturer

Department Of Management Science

University Of Nairobi

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DEDICATION

I dedicate this research project to my parents Mr. and Mrs. Githaiga for their very expensive teachings of values, respect and worth.

ABSTRACT

The traditional procurement system involving the separation of design and construction services has served the public well over the past century. This separation of design and construction services can foster adversarial relationships between the agency, designers, and contractors, can restrict innovation, and result in high cost/time growth and therefore may not necessarily provide the best value to the Department for all project types. The increasing population has created tremendous pressure to move critical projects quickly through the planning stage and into design and construction, without a commensurate increase in available funding. Underlying these external pressures is the basic requirement to include quality concepts in all phases of the highway program. Procurement practice entail the exercise of acquiring goods and services for an organization as per the set policies that govern the choice of suppliers, products and methods that aim to utilize sound business practices which maximize value of the organization. Application of procurement practices is the solution to improving the procurement system as well as the overall performance in a firm or an organization. This study sought to establish the procurement practices carried out and their effect on performance. It was guided by two objectives which were to establish the extent of application of procurement practices and the effect of the procurement practices on performance. The population included 58 oil marketing companies as listed in appendix III downloaded from www.erc.go.ke, 2013. The study targeted all the departments. The answering of questionnaires meet a lot of resistance which prompted the use of information and reports published by Petroleum Insight East Africa quarterly each year. From the research it was found that all the Independent Petroleum Dealers practiced almost all of the procurement practices we had researched about. The practices that were used to a large degree are as follows, Supplier relationship management, E-technology, Green supply chain management, Ethical procurement, whole factory view point. These practices affected positively on performance on the levels of ability to meet demand, high quality products, customer satisfaction and stability of prices. It was found out that all organizations experience the challenges identified however they differed in terms of degree of experience in each organization.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS	iii
DEDICATION	iv
ABSTRACT	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
CHAPTER ONE INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Procurement Practices	2
1.1.2 Organisational Performance	3
1.1.3 The Oil Industry in Kenya	4
1.2 Statement of the Problem	5
1.3 Objectives of the study	7
1.4 Value of the Study	7
CHAPTER TWO LITERATURE REVIEW	8
2.1. Introduction	8
2.2 Procurement Practices	8
2.2.1 Supplier Relationship Management	10
2.2.2 E-Technology	11
2.2.3 Green Supply Chain Management	12
2.2.4 Ethical Procurement	12
2.2.5 Whole Factory View Point	13
2.3 Organisational Performance	14
2.4 Procurement Practices and Organisational Performance	15
2.5 Summary of the Literature Review	16
2.6 Conceptual Framework	18

CHAPTER THREE RESEARCH METHODOLOGY	19
3.1 Introduction	19
3.2 Research Design	19
3.3 Target Population	19
3.4 Data Collection.....	20
3.5 Data Analysis.....	20
CHAPTER FOUR DATA ANALYSIS, RESULTS AND DISCUSSION	22
4.1 Introduction	22
4.2 Response Rate	22
4.3 Demographic information	23
4.3.1 General information of Respondents.....	23
4.3.2 Distribution of Respondents by Age	23
4.3.3 Distribution of respondents by Position Held	24
4.3 Extent of procurement practices use in the firms	25
4.4 Effects of Procurement Practices on Performance	27
CHAPTER FIVE SUMMARY OF FINDINGS, CONCLUSION AND	32
RECOMMENDATIONS	32
5.1 Introduction	32
5.2 Summary of findings	32
5.3 Conclusion of the Study	35
5.4 Recommendations	35
5.5 Limitations of the study.....	36
5.6 Suggestions for further research.....	36
REFERENCES	37
APPENDICES.....	42
Appendix I: Transmittal Letter.....	42
Appendix II: Structured Questionnaire.....	43
Appendix III: List of Oil Marketing Companies in Kenya.....	47

LIST OF TABLES

Table 4.1 Response Rate	22
Table 4.2 Distribution of Respondents by Gender	23
Table 4.3 Distribution of Respondents by Age	24
Table 4.4: Distribution of respondents by department	25
Table 4.5: Procurement Practices in use.....	26
Table 4.6: Procurement practices and performance	27
Table 4.7: Coefficients Estimates.....	29
Table 4.8: Perceived challenges faced during procurement practices implementation.....	30

LIST OF FIGURES

Figure 3.1 Conceptual Framework	18
Figure 3.2 Data Collection and analysis summary	21

LIST OF ABBREVIATIONS

ROA	Return on Assets
ROE	Return on Equity
GSCM	Green Supply Chain Management
ERC	Energy Regulatory Commission
SCM	Supply Chain Management
SRM	Supplier Relationship Management
PIEA	Petroleum Institute of East Africa
OTS	Open Tender System
SWOD	Safe Waste Oil Disposal

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Ullrich (2014) supply chain consists of all parties involved, directly or indirectly, in fulfilling a customer request. The supply chain not only includes the manufacturer and suppliers, but also transporters, warehouses, retailers, and customers themselves. A supply chain is an integrated manufacturing process wherein raw materials are converted into final products, then delivered to customers. At its highest level, a supply chain is comprised of two basic, integrated processes: the production planning and inventory control process, and the distribution and logistics process (Wisner, 2011). More precisely one can look at supply chain as a network of facilities and distribution options that performs the function of procurement of materials, transformation of these materials into intermediary and finished products, and the distribution of these products to customers (Ganeshan & Harrison, 1995). Supply chain therefore involves distribution, maintenance, inventory, marketing, new product development, finance, customer service and procurement (Hugos, 2011).

Hutt and Speh (2012) assert that procurement is broadly described as the overarching function that describes the activities and processes to acquire goods and services. Importantly, procurement involves the activities involved in establishing fundamental requirements, sourcing activities such as market research and vendor evaluation and negotiation of contracts. It can also include the purchasing activities required to order and receive goods. The role of procurement is to deliver the right materials or service in the right amount to the right place at the right time and

at the right price. There are different methods of procurement, which are utilized to acquire goods or services. There are many factors which determine which method is best, but the most important of these would be: the complexity of your need, the value of the procurement, your time horizon, the availability of potential suppliers, the interest of potential suppliers in competing for this procurement, and the risk if something goes wrong during the process. The procurement processes involves; purchasing, planning, definition of business needs, strategy formulation, supplier evaluation and selection, contracting, induction, integration and procurement evaluation. For best value procurement, certain methods are important; these are the procurement practices (Jin & Ryan, 2014).

1.1.1 Procurement Practices

Procurement practice entail the exercise of acquiring goods and services for an organization as per the set policies that govern the choice of suppliers, products and methods that aim to utilize sound business practices which maximize value of the organization (Sollish and Semanik, 2012). Procurement practices are strategies that may be followed when making company purchasing decisions. These practices may include building supplier relationships, team-based approaches to procurement, competitive approaches, customer relationships and proper use of technology or E-procurement. Implementing procurement best practices may significantly improve the effectiveness of purchasing decisions. Procurement practices cuts through all departments of an industry as it involves the putting in practice the knowledge of good management. It involves good governance of relations as well as personal initiatives to comply with given rules and regulations. Effective procurement practices create a major source of competitive advantage for the enterprise by operating at a lower cost and hence at a greater profit and improved performance (Christopher, 1992).

Some best procurement practices include; Ensure compliances with procurement laws and regulations, Cooperative supplier relations, Ensuring effective contract and supplier management, Strong liaison with the user departments, Ensure adequate expertise in SCM, Cross-functional approach, Effective communication, Ensuring productive stakeholder and customer relations, Maintain confidentiality, Continuously improving performance and innovation, Embrace modern technology, Maintain records and ensure they remain updated, Use standard documents in the procurement process, Rationalize the supply base, Embrace Green, socially responsible and sustainable procurement, Ensuring competition through market research, Obtain competitive bids, Separation of duties.

1.1.2 Organisational Performance

Performance measurement entails the focus on the internal process of quantifying the effectiveness and the efficiency of action with a set of metrics. The measures and indicators act as surrogates or proxies for organizational phenomena. Performance measures are intended to be used in the strategic planning process. Therefore measures should inform planners as to problems that require attention, and should allow planners to monitor progress toward goals. Poister (2010) also indicates that performance measurement is intended to produce objective, relevant information on a program. Recently, Gunasekaran and McGaughey (2004) developed a framework for SCM performance measures and metrics listed for supply chain process (plan, source, make and deliver) and level of management (strategic, tactical and operational levels). The measures of the operational performance construct are flexibility, reduced lead times in production, forecasting, resource planning, cost savings and reduced inventory levels.

Kirkendall, (2010) notes that organizational performance is measured using profitability; such as return on assets (ROA) and return on Equity (ROE).

Pirog (2007) points out that the oil industry performance measures of marketing companies can be recorded in terms of ability to meet demand, stability of prices for its products, customer satisfaction and ability to maintain high quality products. Implementation of end-to-end visible operations best practices will improve decision making, reduce supply chain costs, lower inventories, better utilize assets and improve margins. Planners and schedulers will be able to improve the accuracy of their forecasts and reduce reactionary spot purchases. With more accurate demand and supply plans, companies will be able to better manage emissions and proactively trade emissions credits. In turn, inventories can be managed at lower levels while still improving fill rates and avoiding stock-outs.

1.1.3 The Oil Industry in Kenya

Petroleum is Kenya's major source of commercial energy and has, over the years, accounted for about 80% of the country's commercial energy requirements. The domestic demand for various petroleum fuels on average stands at 2.5 million tons per year, all of it imported from the Gulf region, either as crude oil for processing at the Kenya Petroleum Refineries Limited or as refined petroleum products. Petroleum is the most important source of commercial energy. Petroleum fuels are imported in form of crude oil for domestic processing and also as refined products, and mainly used in the transport, commercial and industrial sectors. Fluctuations in international prices directly affect domestic prices. Trends in the sale or consumption of petroleum fuels indicate that retail pump outlets and road transport constitute the single largest consumer of petroleum fuels followed by aviation and power generation.

Kenya embarked on fundamental structural and regulatory reforms in the energy sector in earnest after mid-1990's following the enactment of the Electric Power Act, 1997 and later the Energy Act 2006. These legislations laid the foundation for the separation of generation from transmission and distribution in the electricity sector and the liberalization of the procurement, and pricing of petroleum products in the country. However, this has not succeeded in improving the performance of the industry. For instance, liberalisation still under performs in retail price (which is on the increase) and no new investments in the service provision in rural areas. Unless liberalisation is strongly supported by complementary institutional measures performance of the sector is unlikely to improve.

1.2 Statement of the Problem

In the procurement profession, there is a broad set of external factors which directly affect organizational performance: customer, policy, staff, processes, vendors, tools and organisation. Regardless of whether the external factors are enabling or inhibiting, the procurement function must deliver value-usually in the form of cost savings, enhanced vendor performance, and mitigation legal and operational risk. Most global studies focus on supply chain management, pricing and logistics of petroleum in more developed countries like Zambia and Nigeria. Liberalisation as also triggered many studies to evaluate the extent of its success in different countries. However, little attention is given to procurement practices and performance of the oil industry itself. Rao and Holt (2005) pointed out that organizations adopting GSCM in the South East Asian region ultimately enhanced both competitiveness and economic performance. Zhu et al. (2007) indicated that enterprises implementing GSCM in China have only slightly improved environmental and operational performance and GSCM practices have not resulted in a significant economic performance improvement.

Suganthi and Samuel (2012) studied the effect of oil price regulation on the financial performance in the oil companies in Kenya and found out that price regulation has more positive effects on the consumers than to the companies. Unfortunately he only focused on price regulation and financial performance. Abdi (2012) researched on procurement practices in Kenya's public corporations which did not bring out the effects of the practices. Livohi (2012) found out that Kenya petroleum industry faces supply chain challenges such as lack of strategic stocks, relatively high petroleum prices compared to other East African countries, frequent fuel shortage, sub-standard products and diversion of products destined for export back into the country.

Khisa (2011) conducted a study on green procurement practices in the public sector the case of parastatals in Kenya and found out that many organizations were either considering or just initiating implementation of green procurement practices. However the study did not cover the oil industry in Kenya. Livohi (2012) studied downstream supply chain performance measurement by the oil marketing companies in Kenya with the objective of establishing the extent to which oil Marketing Companies in Kenya measured their performance but did not study the practises carried out in the oil industry. Paul (2009) factors influencing ethical standards of managers within the Kenya Oil Industry aiming at determining the level and factors that influence their ethical standards but leaves out their performance in the oil industry. This has resulted to arising issues that make the oil sector suffer in efficiency and effectiveness.

In reference to all this there is evidence that efficiency and effectiveness in the oil industry is questionable. Unsatisfied demand and hiking prices of basic commodities present a need to come up with strategies to improve the industry's performance. It is this state that calls for the research of procurement practises and processes in quest to answer; what procurement practises are carried out in the oil industry in Kenya? To what extent do procurement practises affecting the performance of the industry in Kenya?

1.3 Objectives of the study

This study seeks to achieve two objectives;

- i) To establish the extent to which procurement practises are carried out in the oil industry in Kenya.
- ii) To determine the effect of procurement practices on the performance of oil industry in Kenya.

1.4 Value of the Study

The study will help new companies interested in venturing into the oil sector with insight of possible practises, implementation that may give them a better competitive edge.

The study will give insight to the government of which areas in the oil industry that need more emphasis and new regulations.

The study will be of help to the procurement firms to know which section of the oil sector require the services of training, implementation and support.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter focuses on the literature review as conducted by the researcher. It includes a review of the various studies that have been conducted by other researchers relating to procurement practises and performance in the oil industry in Kenya. Among the areas reviewed include: Procurement Practices, Organisational Performance, Procurement Practices and Performance in the oil industry in Kenya and challenges facing procurement practices and organisational performance. The chapter also provides the research gaps identified and a comprehensive conceptual framework.

2.2 Procurement Practices

According to Weele (2010), procurement is the acquisition of goods or services. It entails the steps that are used in the acquisition of goods and services and it is the most significant aspect characterizing an organization's supply chain as well as the aspect of supply management which provides some of the most value-added benefits to the organization. Procurement encompasses the whole process of acquiring property and /or service. It begins when an agency has identified a need decided on its procurement requirements. Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, contract award, delivery of and payment for the property and/or services and, where relevant, the ongoing management of a contract and consideration of options related to the contract. Procurement also extends to the ultimate disposal of property at the end of its useful life (Ngugi & Mugo, 2012).

According to Thai (2007), the basic principles of good procurement practise include accountability, where effective mechanisms must be in place in order to enable procuring entities spend the limited resources carefully, knowing clearly that they are accountable to members of the public; competitive supply, which requires the procurement be carried out by competition unless their convincing reasons for single sourcing; and consistency, which emphasizes the equal treatment of all bidders irrespective of race, nationality or political affiliation. One of the most important procurement best practises is improving the relationship between the buyer and supplier. Good procurement practices can enable an organization to achieve efficiency in the supply chain (Singhal & Hendricks, 2002). Choosing a supplier based solely on competitive pricing is often viewed as short-sighted and maybe ineffective. An alternative procurement is to use suppliers that offer reliable products at fair prices. Before evaluating any best practises, companies need to have a handle on one extremely important aspect of their business: the cost drivers. Cost drivers are all those elements and ingredients that determine the total cost of a business process. Once they have identified those elements, they can take action and try to lower those costs whenever possible. Plus, companies can continue to investigate those elements and to assess possible alternatives or changes that might save them future money. Once those cost drivers are identified, the best practises associated with the management of those drivers can be implemented starting with the maintenance of supplier relationships. Pearson (2007) asserts that open and fair competition in procurement is a practice in procurement which ensures that an organization selects right suppliers. Another best practise is the wise use of technology. Many businesses make the mistake of bringing in costly and complicated new technology, then leaving their workforce to learn how to use it and adjust to the dramatic change. They wrongly view the

implementation of new technology as a procurement strategy when it is simply a tool that enables a strategy to be successful.

The next best practise strategy is strong support from the company's top management. First they need to provide adequate funding for the program. Then hire individuals who are knowledgeable about the program being implemented. They also have to convince the lower level managers and employees that they are truly committed to the endeavour. Finally companies should take a team based approach to procurement. The purchasing department should not be solely responsible for making the company's strategy a success. Individuals from throughout the company and from different departments should be involved.

2.2.1 Supplier Relationship Management

Burt, Petcavage and Pinkerton (2010) acknowledge that buyer-supplier relationships have evolved from being transactional in nature, to being collaborative and alliance-based. However, according to Fawcett, Ellram and Ogden (2007), and Melnyk, Cooper and Hartley, (2011), the key is 'an appropriate' relationship that is in accordance with strategic sourcing principles. Some suppliers of less significant standard materials and services receive only limited attention with an arms-length relationship. However, since the emergence of SCM two decades ago, the focus has shifted to long-term engagement and relationships with suppliers of critical and bottleneck materials or services (Wu & Weng 2010; Gullett, Head & Wilmott, 2010). Business owners and executives are beginning to realise that strategic supplier alliances, if successful, can result in better market penetration, access to new technology and knowledge, and higher returns on investment than those competitors who do not have such alliances (Wisner, He, Tan, Lee, & Li, 2009).SRM aims to overcome the traditional adversarial relationship between buyers and suppliers. It is through communication and the sharing of information and ideas that better

outcomes are provided for both parties. According to Bailey, Farmer, Jessop and Jones (2005), mutual supplier-buyer relationships provide benefits in terms of sharing and exchanging information, with the emphasis on building a 'satisfactory outcome together' in a range of areas. According to Saunders (1997), the outcome of an adversarial relationship is perceived in terms of a 'win-lose' result, whereas the outcome of a partnership relationship is perceived to result in a 'win-win' situation – where both sides win at the same time through the implementation of a problem-solving approach. Burt (2010) and Mangan, Lalwani, Butcher and Javadpour (2012) agreed that the main distinction between these two relationships is the existence of institutional trust.

2.2.2 E-Technology

In the oil industry there exists a heterogeneous IT landscape with poor integration and coordination among legacy point solutions, home-grown tools, ERP infrastructures and best of breed applications. The industry consolidation has exacerbated this complexity of technology infrastructures across the globe as multiple, often incompatible instances of ERP packages and legacy systems have to communicate and interlink within a new, larger organization. Government officials and elected leaders have increasingly come to realize that public agencies must utilize ICT in order to enhance the procurement processes in the public sector. Faced with tight budgets and a retiring workforce, today's government agencies are operating in an environment defined by the need to do more with less'. Public authorities are expected to provide excellent service to their constituents in an effective and transparent manner, all the while working under constant resource constraints by adopting ICT (Hagén, and Zeed, 2005).

2.2.3 Green Supply Chain Management

Over the last two decades, the public has become more aware of environmental issues and global warming and companies always anticipate questions about how green their manufacturing processes are, their carbon footprint and how they recycle the end products after use (Vachon and Klassen, 2007). As a result, both manufacturing and service organizations must consider the impact of environmental approach on business performance and the economic viability of the firm as well as on the environmental performance. Success at the supply chain level leads to success at the organizational level (Chopra and Meindl, 2004). Since customers and governmental entities have begun to demand that processes, products, and services be environmentally friendly, it is important that managers identify and implement environmental sustainability practices that extend throughout the supply chain.

Two forces in particular are forcing companies to embrace environmental management. The first is international environmental protection regulations such as the Montreal Convention and the Kyoto Protocol; the second is the environmental consciousness of consumers (Chen et al., 2006). Companies understand that if they supply products and services which satisfy their customers' environmental concerns, then those customers are more likely to favour their products or services

2.2.4 Ethical Procurement

Ethical behaviour includes avoiding conflicts of interest, and not making improper use of an individual's position. Ethical behaviour supports openness and accountability in a procurement process and gives suppliers confidence to participate in the Government marketplace. Ethical behaviour can also reduce the cost of managing risks associated with fraud, theft, corruption, and other improper behaviour; and enhance confidence in public administration (Weele, 2012). Ethical purchasing is used here as generic term to include sourcing, purchasing and procurement.

It is the acquisition of goods and services through supply chains and subcontractors in a responsible manner, with consideration of the conditions under which goods and services are made and delivered and a strategy that promotes improvements (Mamic, 2005). When people or business deal with contracting as a means of Procurement for their company, there may be issues regarding who the company will deal with. Procurement process conducted correctly in ethical way can be a valuable tool when combating this problem, Fisher & Lovell, (2009). In October 1994, the Kenya Government de-regulated the oil industry and allowed competitive forces to determine the margins that the oil marketing companies could extract from the market. The Government also relaxed licensing requirements enabling registration of smaller companies to increase the competitive forces in the market. This enabled new entrants to enter the sector. The competitive nature of the industry eventually led to growth in unethical practices, especially amongst the smaller players in the industry. These practices included willful adulteration of fuels to increase profit margins and the diversion and dumping of export products back into the local market. Over time, the Government has come up with tactics to minimize the unethical practices but these efforts have failed to completely stamp out or eradicate these practices.

2.2.5 Whole Factory View Point

A key characteristic of supply chain management is the coordination of activities between interdependent organizations and can hence be defined as the management of upstream and downstream relationships with suppliers and customers in order to create enhanced value in the final market place at less cost to the supply chain as a whole (Christopher, 1992). Therefore, any approach to managing challenges from a supply chain perspective must have a broader scope than that of a single organization and provide insights regarding how the key processes have to be performed across at least three organizations. However, supply chains should not be thought

of as a single organizational entity. Instead, it should be recognized that coordination and joint effort rely on dependency, bargaining, negotiation and persuasion across organization borders and is inhibited by goal incongruence. To assess challenges in a supply chain management context, companies must not only identify direct challenges to their operations but also the challenges to all other entities as well as those challenges caused by the linkages between the organizations. Similarly, Harland et al. (2003), who conducted four case studies in the electronic sector, came to the conclusion that in the supply chains examined, less than 50 per cent of the challenges were visible to a focal company. With the oil marketing companies as study's specific context, the study also needs to clarify the nature of challenges in the supply chain management in the oil marketing companies.

2.3 Organisational Performance

Therefore, supply chain governance is intended towards optimizing operational chain performance by delivering a product or service to the ultimate customer at minimal cost and at the required time (Fandela and Stammen, 2004). Thai (2007) identified basic principles of good supply chain management practices in the public sector. These include accountability; where effective mechanisms must be in place in order to enable resource utilization among supply chain members, competitive supply; which requires the procurement be carried out by competition unless there are convincing reasons for single sourcing; and consistency; which emphasizes the equal treatment of all suppliers. Supply chain governance yields benefits to organizations such as cost reduction, enhanced profitability, assured supplies, quality improvements and competitive advantage as was noted by Batenburg & Versendaal (2006). An effective SCM ensures availability of the right goods or services in the right quantities, available at the right time, for the right place and at reasonable prices, and at recognizable standards of quality (WHO, 2007).

2.4 Procurement Practices and Organisational Performance

Effective management of the procurement function is a precursor to the performance of the system in achieving its intended objectives both the public and private sector. Livohi (2012) in this study recommends that there is need to expand the Kenya pipe line to increase its oil transportation capacity and as a result reduce the cost of oil transportation. The oil marketing companies need to train their personnel so as to appreciate the concept of SCM and the best practices and systems that are significant in mitigating the challenges of SCM. They also need to develop customer relationship management, supplier relationship management and engage in closer cooperation with other companies, government and regional players. Further, oil marketing companies in Kenya need to invest in IT systems. All this fall under procurement practices which is not being given enough emphasis in the oil industry performance processes.

Best practices improve efficiency and effectiveness of an organisation which translates to improvement of its overall performance. According to Christopher, Grace, Boaz (2009), Effective utility regulatory framework requires an effective legal backing in statutory law, good leadership and adequate technical capacities both in numbers staff and diverse range of skills. Planning service will provide demand and supply plans and incorporates market information. This service should also learn from historical data and continuously improve forecast accuracy and planning capabilities. Inventory service will monitor crude terminal and refinery inventory providing near-real time updates. Transportation service will manage the host of service providers from rail, truck, pipeline and shipping ensuring that the providers have been qualified and meet all legal, environmental and operational requirements. Scheduling service will review the availability of transport services and match service providers with demand locations. Trading service will provide near real time information on spot trades available and completed as well as

existing contractual obligations. Optimization service will be the engine that aggregates the various constraints and determines the optimal plan and schedule to meet a particular demand whether this is at the refinery level or within the distribution network.

With supplier relationship management, customer satisfaction is emphasised as well as stability of prices. This is achieved by reducing the number of possible shortages and supply of good quality products. Green supply chain management practices will ensure high quality products which are environmental friendly hence considering customer satisfaction. Ethical procurement enhances accountability, consistency and competitive supply all which influence the indicators of procurement performance in a positive way.

2.5 Summary of the Literature Review

With the downstream business maintaining focus on margins, the supply chain planners and schedulers are continuously scrutinized and expected to drive savings through improved forecasts and schedules while dealing with shorter planning horizons. Traditionally, however, planning and scheduling functions at the integrated oil companies have been fragmented, or at best manually integrated through the sharing of spreadsheets and documents among multiple stakeholders through a series of decision steps. Moreover, many of the highly skilled and experienced supply chain professionals are part of an aging workforce and nearing retirement. These workers carry with them much of the knowledge and ‘informal’ process steps that have helped overcome the lack of current supply chain integration. This planning effort is further complicated as refineries have to process heavier and more sour crude slates with existing equipment. Blending plans and methods need to be sophisticated and integrated into the planning effort to ensure customer demands are met with the changing crude quality and composition.

Downstream companies are reacting to the situation to protect their margins and remain competitive.

The challenges and complexity of inventory management, transportation, facilities management, pricing and information availability are some of the factors that lead an organisation to embrace supply chain management. All inventories within a supply chain can dramatically alter a supply chain's efficiency and responsiveness. Unexpected changes in customer demands or uncertain supply can greatly affect a supply chain. Modes and routes for moving the inventory faster generally also affect the supply chain's efficiency and responsiveness. Decisions on location, capacity and flexibility of facilities have a significant effect on performance. Decisions on sourcing, whether in procurement, in-house sourcing or outsourcing also affects a supply chain. Pricing for economies of scale, as fixed price or menu pricing are also other decision drivers for supply chains.

2.6 Conceptual Framework

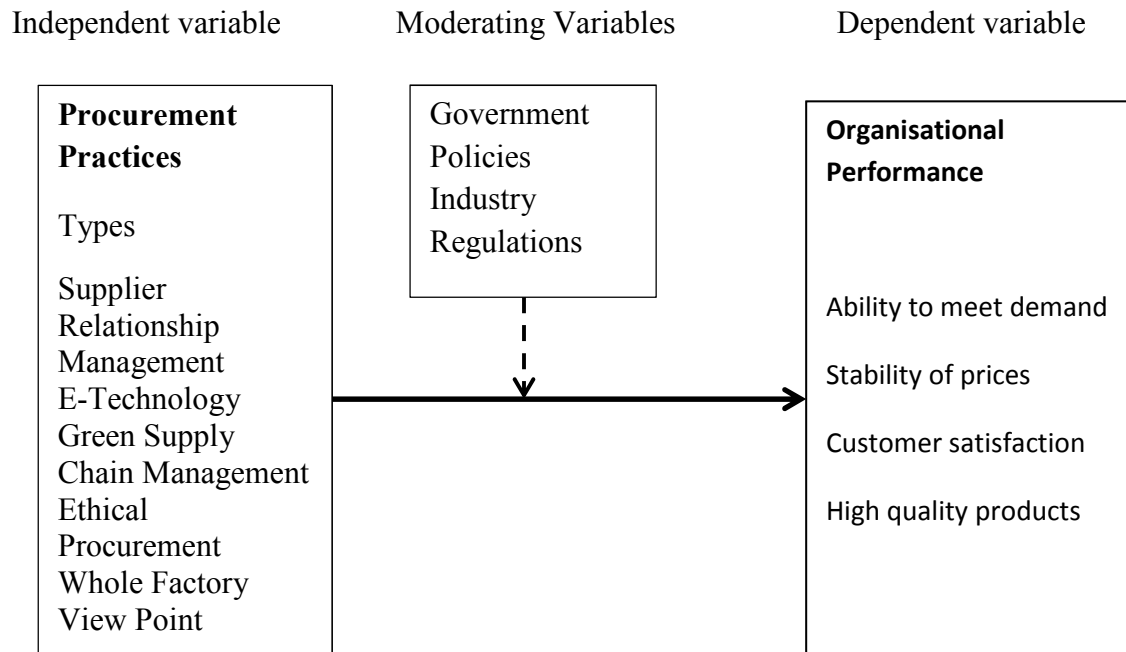


Figure 3.1 Conceptual Framework Author (2014)

In this framework, there are certain factors affecting procurement practices in the oil industry. For this study, five factors are considered as the independent variables. Organizational Performance of the oil industry is the dependent variable that is affected by the independent variables as shown above.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research methods used. This includes the research design, target population, sampling design, data collection and techniques for data analysis.

3.2 Research Design

The research design for the study was a descriptive study. According to Salaria (2012), descriptive research is sufficient for gathering information about prevailing conditions or situations for the purpose of description and interpretation. This design was appropriate in assisting researchers establish the effect of procurement practices on the performance of the oil industry in Kenya. This research design has been used successfully by several past studies including Kuria (2013) who studied operational challenges facing performance of thermal power plants in Kenya. Karimi (2012) also used a similar research design successfully in his study on the relationship between Human Resource Strategy and firm performance among Parastatals.

3.3 Target Population

The unit of the study was the oil firms in Kenya. Thus the population in this research was made up of 58 oil importing and marketing companies (appendix II). Since the sample size is relatively small a census was applied.

3.4 Data Collection

Primary data was used in this study. Primary data was gathered using structured questionnaire and interviews were carried out on willing managers. Primary data was gathered using the questionnaires. The questionnaire was divided into four sections. Section A constituted the respondent's general information, section B extent of procurement practices, section C the effect of procurement practices on organisational performance and section D challenges facing procurement practices implementation.

Respondents were required to rate their responses using a 5 point Likert scale designed questionnaire. This design made it easy for the respondent to give accurate and direct response with a lot of ease. This design enabled the researcher to capture the positive and negative attributes from the respondents. The questionnaires were administered through emails and "drop and pick later" method. Telephone calls were also used for clarification on some questions and probing. The respondents included procurement managers, financial managers, logistics manager and IT system manager.

3.5 Data Analysis

Since data collected was in quantitative form, the study adopted quantitative methods of data analysis. In order to determine the level of procurement practices use among oil marketing firms in Kenya, frequencies and percentages were used. Regression analysis was applied to determine the relationship between procurement practices and performance of the oil marketing firms. The findings were presented in form of tables.

The following regression model was used to establish the relationship between variables that is; procurement practices and performance of oil marketing firms.

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + E$$

Where Y= Dependent variable

X_1, X_2, X_3, X_4, X_5 = Independent variables

b_1, b_2, b_3, b_4, b_5 = Coefficients

a=Constant

E= Error term

Figure 3.2: Data Collection and analysis summary

Objective	Section	Content	Data Analysis Technique
	A	General Information	Descriptive Statistics
Objective 1	B	Extent of Procurement Practices	Descriptive statistics
Objective 2	C	Effect of Procurement Practices on Organisational Performance	Correlation and Regression Analysis
Objective 3	D	Challenges faced in implementation of Procurement Practices	Descriptive Statistics

Author (2014)

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is presented in four sections; this is the demographic information of the respondents, extent of procurement practices, the effect of procurement practices on organisational performance and finally looks at the challenges facing procurement practices implementation in the oil industry. The data has been presented in tables; the responses were analyzed using descriptive statistics.

4.2 Response Rate

Out of 100 questionnaires which were administered to the interviewees, 50 of them were returned for analysis. This translates to 50.0% return rate of the respondents. Overall the response rate can be considered to have been high as shown below in Table 4.1

Table 4.1 Response Rate

<u>Response Rate</u>	<u>Frequency</u>	<u>Percentage</u>
Issued	100	100.0
Returned	50	90.0
<u>Not Returned</u>	<u>50</u>	<u>10.0</u>

Author (2014)

4.3 Demographic information

4.3.1 General information of Respondents

The study sought to find out the distribution of respondents by gender to know which gender is the majority within the oil industry. This is part of the general information and not a direct objective of the study. The finds are presented below in Table 4.2

Table 4.2 Distribution of Respondents by Gender

Gender	Frequency	Percentage
Male	35	70.0
Female	15	30.0
Total	50	100

Author (2014)

Table 4.2 shows that majority of the respondents who participated in the study were male, representing 70 percent followed by Female at 30 percent. The results would imply that the majority of staff in the Kenyan oil industry firms is male.

4.3.2 Distribution of Respondents by Age

The study sought to find out the distribution of respondents by age to know which age group is the majority within the oil industry. This is part of the general information and not a direct objective of the study. The findings are presented below in Table 4.3

Table 4.3 Distribution of Respondents by Age

Age	Frequency	Percentage
Below 20 years	0	0
21-30 years	5	10
31-40 years	25	50
41-50 years	15	40
Above 50 years	5	10
Total	50	100.0

Author (2014)

Table 4.3 shows that majority of the respondents who participated in the study were between the ages of 31 and 40 years, representing 50 percent followed closely by 41-50 years age bracket at 40 percent. The results would imply that the majority of staff in the Kenyan oil industry firms is between the ages of 41-50 years. This could imply that majority of employees in this industry are middle aged probably reason being firms tend to retain their employees or employ experienced staff from other sectors.

4.3.3 Distribution of respondents by Position Held

The study further sought to find out the respondent's career orientation. This question was asked to understand the distribution of the careers of the respondents. The question was asked to show the extent of the use of procurement practices across departments. The results are presented in Table 4.4

Table 4.4: Distribution of respondents by department

Department	Frequency	Percentage
Purchasing	13	26.0
Logistics	14	28.0
Finance	12	24.0
Others	15	30.0
Information Systems	8	16.0
Total	50	100.0

Author (2014)

Table 4.6 shows that many of the respondents (30%) are from other departments, 28% are from logistics department, 26 % are from purchasing department; 24 % from Finance department, while 16% are from information systems department.

4.3 Extent of procurement practices use in the firms

The study sought to find out the level of agreement on the extent to which procurement practices are applied in the respective marketing firms. This is a direct subtheme of the study as it provides information on the levels of practice in procurement within the oil industry. The findings are revealed in Table 4.5

Table 4.5: Procurement Practices in use

	N	Minimum	Maximum	Mean	Std deviation
The Company practices supplier relationship management	7	1.000	5.000	2.7708	0.99444
The extent to which E-technology system are adopted	7	1.000	5.000	2.9375	1.19228
The company practices green supply chain management	7	1.000	5.000	2.8125	0.95997
The company's measures to keep a competitive edge	7	1.000	5.000	2.8333	1.11724
Application of professional ethics in the company	7	1.000	5.000	2.9375	1.19228
The company practice ethical procurement	7	1.000	5.000	2.7708	0.99444
Company's ability to view the system holistically from one point.	7	1.000	5.000	3.0625	1.07992
Valid N	7				

Author (2014)

Table 4.5 shows that, all the procurement practices were rated between 2.51 and 3.5 indicating that procurement practices within the oil marketing firms have been implemented to a moderate extent. Specifically, the highest rated practice was company's ability to view the system holistically from one point (mean, 3.0625), this was followed by application of professional ethics in the company (mean, 2.9375), the extent to which E-technology system are adopted (mean, 2.9375), the company's measures to keep a competitive edge (mean, 2.8333), the company practices green supply chain management (mean, 2.8125), the company practice ethical procurement (mean, 2.7708) and finally the Company practices supplier relationship management (mean, 2.7708) as procurement practice in use in the oil marketing firms.

4.4 Effects of Procurement Practices on Performance

The study sought to find out the extent of procurement practices use and the subsequent effects on performance in the oil industry. This question is a direct sub theme to see how procurement practices affects performance. The findings are revealed in Table 4.6

Table 4.6: Procurement practices and performance

	N	Minimum	Maximum	Mean	Std Deviation
The practices of supplier relationship management help quality of product supplied	12	1.000	5.000	3.8125	1.30384
Adopting improved E-technology system help improve ability to meet demand	12	1.000	5.000	4.0625	1.22474
Green supply chain management practices better quality of products	12	1.000	5.000	3.7945	1.56525
High competition environment triggers an organisation to better its performance levels	12	1.000	5.000	3.4967	1.08397
Application of professional ethics will help improve organisational performance	12	1.000	5.000	3.5000	0.9301
Better ethical procurement leads to reduced costs and stable prices	12	1.000	5.000	2.6125	1.51658
Application of whole factory view point improve the ability to meet demand	12	1.000	5.000	2.4975	1.94936
The practices of supplier relationship management help in customer satisfaction	12	1.000	5.000	3.8475	1.20416
The practices of supplier relationship management help in regulation of stable prices	12	1.000	5.000	3.2012	1.78885
Adopting improved E-technology system help stabilize prices	12	1.000	5.000	2.2210	1.30384
Adopting improved E-technology system initiate better customer satisfaction	12	1.000	5.000	3.9375	1.0247
Green supply chain management practices enhance customer satisfaction and confidence	12	1.000	5.000	3.6000	1.34164
Valid N	12				

Author (2014)

Table 4.6 shows that, all the procurement practices and how they affect performance, they were rated between 2.0 and 4.0 indicating that procurement practices affects performance to a very great extent within the oil marketing firms. Specifically, the highest rated practice was adopting improved E-technology system help improve ability to meet demand (mean, 4.0625), this was followed by adopting improved E-technology system initiate better customer satisfaction (mean, 3.9375), the practices of supplier relationship management help in customer satisfaction (mean, 3.8475), the practices of supplier relationship management help quality of product supplied (mean, 3.8125), green supply chain management practices better quality of products (mean, 3.7945), green supply chain management practices enhance customer satisfaction and confidence (mean, 3.6000), application of professional ethics will help improve organisational performance (mean,3.5000), high competition environment triggers an organisation to better its performance levels (mean, 3.4967) and the practices of supplier relationship management help in regulation of stable prices (mean, 3.2012). The following practices affects performance moderately; better ethical procurement leads to reduced costs and stable prices (mean, 2.6125) , application of whole factory view point improve the ability to meet demand (mean, 2.4975) and finally adopting improved E-technology system help stabilize prices (mean, 2.2210) as some of the procurement practice greatly and moderately affecting performance of the oil marketing firms.

Table 4.7: Coefficients Estimates

Statistics		VAR	Beta	t	Sig.
N	Valid	12		.850	.410
		0	-.450	-4.758	.000
Mean		2.5833	-.197	-1.058	.146
Std. Deviation		1.08362	.349	3.634	.001
Skewness		.516			
Std. Error of Skewness		.637			

Author (2014)

The study sought to find out the extent to which the following perceived challenges faced in procurement practices implementation. This question is a direct sub theme of the study and was asked for the purpose of understanding what the challenges faced during procurement practices implementation. The findings are revealed in Table 4.8

Table 4.8: Perceived challenges faced during procurement practices implementation

	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %
Lack of Technology	12.0	13.0	4.0	59.0	13.0
Incompetent staff	8.0	24.0	10.0	39.0	16.0
Incompatibility in technology between organization and supplier	6.0	21.0	14.0	50.0	10.0
Unreliable suppliers	4.0	20.0	18.0	20.0	44.0
Lack of information sharing	8.0	0.0	22.0	55.0	30.0
Geographical proximity	4.0	0.0	14.0	8.0	17.0
There are challenges in linking all suppliers	6.0	4.0	15.0	21.0	30.0
Getting users to accept the system is a huddle	16.0	8.0	11.0	19.0	26.0
Lack of enough finances to support the system implementation	4.0	15.0	8.0	47.0	26.0
Top management not supporting the system	6.0	8.0	12.0	28.0	33.0
Lack of internal integration of functions	4.0	8.0	4.0	45.0	50.0
Resistance from employees	15.0	6.0	11.0	19.0	30.0
ERP systems that do not meet all company requirements	8.0	10.0	18.0	27.0	50.0
Lack of willingness from other stakeholders	4.0	12.0	16.0	30.0	49.0
Resistance from suppliers	8.0	15.0	15.0	40.0	45.0
Lack of capacity to integrate by other companies	4.0	0.0	17.0	35.0	52.0

Author (2014)

Table 4.8 above reveals majority of the respondents agreed to lack of technology (59.0%), lack of information sharing (55.0%) incompatibility in technology between organization and supplier (50.0%), lack of enough finances to support the system implementation (47.0%), lack of internal integration of functions (45.0%), resistance from suppliers (40.0%) and lack of capacity to integrate by other companies (35.0%), are perceived challenges faced while implementing procurement practices. However, a proportion strongly disagreed to incompetent staff (24.0%), Incompatibility in technology between organization and supplier (21.0%) and unreliable suppliers (20.0%) as perceived challenges faced while implementing procurement practices.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The basic purpose of this chapter is to give the summary of findings, discussions, conclusions and recommendation of the study. This was based on the research findings that is presented and discussed in the previous chapters.

5.2 Summary of findings

This study aimed at assessing the extent of procurement practices on the organizational performance of the Kenya oil marketing companies. The task included; establishing the extent to which procurement practices is applied by the oil marketing companies as well as determines the relationship between procurement practices and organizational performance.

The researcher reviewed previous studies with a view to establish academic gaps which the present study sought to bridge. This was done through library research. The procedure included: reading, evaluating the methodology employed in terms of design choice, target population, sample and sampling procedure data collection instruments, (in terms of suitability, validity and reliability) data collection procedures, data analysis, findings and recommendations.

The study employed quantitative research as the main approach to guide the study. The target population included 100 staff of 58 oil marketing firms.

The research instrument used in data collection was a questionnaire from the respondents. To ensure validity of the instruments, expert opinion was sought. Data analysis was started immediately after the collection. Data was summarized into frequencies and percentages and presented in graphs, pie charts and tables.

The findings shows that the shows that the majority of the respondents who participated in the study were male between the ages of 31 and 50 years. The findings further reveal that almost all of the respondents who participated in the study have worked for their organizations for between 1-3 years. In the oil industry, employees move from one marketing company to another depending on how good the company's contract is. This shows that the companies do not experience fresh abilities and capabilities often. This can also can be an indicator the industry has specified standards and systems which govern all the marketing companies.

According to reports from PIEA, the petroleum industry is divided in three parts, the supply, the purchasing and the retail. The supply involves the first process of acquiring petroleum in Kenya since we only have downstream. The oil marketing companies apply for a tender to be the main suppliers of the imported petroleum to the other marketing company. This is known as the Open Tender System (OTS). The most important players for a company to qualify for the OTS are the supplier, the shipment and the broker. The purchasing part involves buying the petroleum from the main distributors. The most important thing that drives this area is the price of the petroleum. It involves warehousing. The retail part involves logistics, distribution and pricing. In all this

levels procurement practices are applied in a large extent but the procedures and considerations are different.

The findings reveal that all the respondents agreed that their firms have adopted procurement practices to a large extent and use of practices has improved the organisational performance of the oil marketing firms. The study agrees with the statement that procurement practices has an important influence on the organisational performance and all of its elements including people, culture, structure, process and tasks.

The study findings revealed that majority of the respondents gave the following as the procurement practices applied: supplier relationship management, e-technology system adoption, green supply chain management, measures to keep a competitive edge, application of professional ethics, practice of ethical procurement and ability to view the system holistically from one point.

The study findings revealed that the practices affects organisational performance in the following following levels; help improve quality of products, improve ability to meet demand, customer satisfaction and high quality products.

In the marketing companies departments have been established to ensure procurement practices are observed carefully. For GSCM, a Safe Waste Oil (SWOD) initiative has been established to ensure all the waste materials are deposited well n safe for the environment. This has a positive effect on customer satisfaction as well as improves the quality of goods offered. Whole factory view practice is still work in progress. According to PIEA, since the introduction of fuel marking

and monitoring program fuel adulteration has gone down by more than 80%. This improves the ability to meet demand and give the companies a chance to keep a competitive edge.

5.3 Conclusion of the Study

On the basis of the above findings, the following conclusions were made for procurement practices and organisational performance of oil marketing firms.

The study found that, the use of procurement practices in a large extent has improved its organisational performance. Some of the ways in which procurement practices improves organisational performance include; improved quality of products, improved ability to meet demand, improved organisational performance, leads to reduced costs and stable prices, improved ability to meet demand and helps in customer satisfaction and confidence.

5.4 Recommendations

On the basis of the above conclusions, the following recommendations were made for procurement practices and organizational performance of the oil marketing companies in Kenya.

From the findings the study recommends that more transparency should be applied in the oil marketing companies. The industry still runs like a cartel which makes some of the companies to have an upper hand in acquiring market shares.

From the research information about procurement practices has reached a larger population of people but more emphasis should be put on the practices implementation.

5.5 Limitations of the study

The findings of this study are directly applicable to the Kenyan Oil marketing firms, both regulated and non-regulated.

The time duration was no adequate to conduct a survey of all oil firms in Kenya, this is the reason the study concentrated on regulated oil marketing firms.

5.6 Suggestions for further research

This study sought to evaluate procurement practices and organisational performance of oil marketing firms attempting to bridge the gap in knowledge that existed. Although the study attained these objectives, it mainly focused on Kenyan oil marketing firms. There is need to replicate the study looking at the wider view to the regional and international marketing firms to find out if there are any more practices influencing organisational performance.

There is need to conduct further study which will attempt to find out the effects of price regulation on customer satisfaction and the interrelationship on organisational performance.

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APPENDICES

APPENDIX I: TRANSMITTAL LETTER

Mercy W. Githaiga
P.O Box 51968, 00200
Nairobi,
3rd October 2014

Dear Respondent,

RE: **DATA COLLECTION**

I am a student at the University of Nairobi. I am currently doing a research study to fulfill the requirements of the Award of Master of business administration (MBA) on **PROCUREMENT PRACTICES AND PERFORMANCE OF THE OIL MARKETING FIRMS IN KENYA.**

You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached online questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Yours Faithfully,

Mercy W. Githaiga

D61/79803/2012

APPENDIX II: STRUCTURED QUESTIONNAIRE

Introduction

This questionnaire has been developed for the purpose of gathering information on the effect of procurement practices on the performance of the oil industry in Kenya. The data collected will be used for academic purposes only and information confidentiality will be strictly observed. Kindly answer the questions by brief statement or ticking the boxes provided as will be applicable.

Instructions: Please respond to the following questions and where applicable, mark the relevant box with a tick (√).

Confidentiality: The responses you provide will be strictly confidential. No references will be made to any individual (s) in the report of the study.

SECTION A: GENERAL INFORMATION

1. Company name (optional).....

2. What is your gender?

Male

Female

3. In which of the following Age brackets do you belong?

Below 20 years **21-30 years** **31-40years** **41-50 years**

Above 50 years

4. Position held;

Purchasing Manager

Logistics Manager

Financial Manager

IT System Manager

Other (Please Specify)

SECTION B: EXTENT OF PROCUREMENT PRACTICES IN THE OIL INDUSTRY IN KENYA

Please indicate by ticking the extent to which the following procurement practices are applied in your organisation as per the following scale of 1-5.

1- None, 2- Small extent, 3- Moderate extent, 4- Large extent, 5- Very large extent

Number		1	2	3	4	5
1	The company practices supplier relationship management					
2	The extent to which E-technology system are adopted					
3	The company practices green supply chain management					
4	The company's measures to keep a competitive edge					
5	Application of professional ethics in the company					
6	The company practices ethical procurement					
7	Company's ability to view the system holistically from one point					
8	Others (specify)					

SECTION C: EFFECT OF PROCUREMENT PRACTICES ON ORGANISATIONAL PERFORMANCE

Please indicate by ticking the extent to which you agree by the following statements. The scale below is applicable.

1- Not at all, 2- Small Extent, 3- Moderate extent, 4- Large extent, 5- Very large extent

Number		1	2	3	4	5
1	The practices of supplier relationship management help quality of products supplied					
2	Adopting improved E-technology system help improve ability to meet demand					
3	Green supply chain management practices better quality of products					
4	High competition environment triggers an organisation to better its performance levels					
5	Application of professional ethics will help improve organisational performance					
6	Better ethical procurement leads to reduced costs and stable prices					
7	Application of whole factory view point improve the ability to meet demand					
8	The practices of supplier relationship management help in customer satisfaction					
9	The practices of supplier relationship management help in regulation of stable prices					
10	Adopting improved E-technology system help stabilize prices					
11	Adopting improved E-technology system initiate better customer satisfaction					
12	Green supply chain management practices enhance customer satisfaction and confidence					

SECTION D: CHALLENGES FACED IN THE IMPLEMENTATION OF PROCUREMENT PRACTICES

Use the scale of: 1= strongly agree 2= Agree 3= Undecided 4= Disagree 5= strongly disagree

No	Statement	1	2	3	4	5
1	Lack of Technology					
2	Incompetent staff					
3	Incompatibility in technology between organization and supplier					
4	Unreliable suppliers					
5	Lack of information sharing					
6	Geographical proximity					
7	There are challenges in linking all suppliers					
8	Getting users to accept the system is a huddle					
9	Lack of enough finances to support the system implementation					
10	Top management not supporting the system					
11	Lack of internal integration of functions					
12	Resistance from employees					
13	ERP systems that do not meet all company requirements					
14	Lack of willingness from other stakeholders					
15	Resistance from suppliers					
16	Lack of capacity to integrate by other companies					

Appendix III: List of Oil Marketing Companies in Kenya

The Company's customers are the oil marketing companies categorized as Multinational Oil Companies (MOC's), Local Oil Companies (LOC's) and Independent Oil Dealers. They include:

1. Addax
2. Al-leyl
3. Astrol
4. Bakri
5. Banoda
6. Intoil
7. Jade
8. Dalbit Petroleum
9. Riva Oil
10. Vitoil
11. EPPIC Oil (K) Ltd
12. Jade Petroleum Ltd
13. Fossil Fuel Ltd
14. Riva Petroleum Deale
15. Gapco Kenya Ltd
16. Regnol Oil (K) Ltd
17. Galana Oil (K) Ltd
18. Trojan International
19. Global Petroleum Pro
20. Premium Petroleum Co.
21. Gulf Energy
22. Tosha Petroleum (K)L
23. Hashi Energy Limited
24. AL-LEYL
25. Hass Petroeum (K) Lt
26. Oil City Services
27. Kenya Oil Company Lt

28. Millenium Dealers li
29. Kobil Petroleum Ltd
30. Orix oil (K) LTD
31. VIVO
32. Sovereign Oils Ltd
33. Libya Oil Kenya Limited
34. Kamkis Trading Company
35. Metro Petroleum
36. Banoda Oil Limited
37. Moil Petroleum
38. Nafton Petroleum Lim
39. MGS International (K)
40. Ranway Traders Limited.
41. National Oil Corporation
42. Tosha Petroleum (K)L
43. Oil Com (K) Ltd
44. Kenol/Kobil Ltd.
45. Petro Oil (K) Ltd
46. Quantum Petroleum limited
47. Royal Energy (K) Ltd
48. Samhar Petroleum
49. Total (K) Ltd
50. Essar Petroleum (E.A)
51. Addax Kenya Ltd
52. Keroka Petroleum Ltd
53. Bakri International
54. Olympic Petroleum Li
55. Hared Petroleum
56. East African Gasoil
57. Muloil Limited
58. Tradiverse

Source: www.erc.go.ke, 2013