# INFLUENCE OF ADOPTED STRATEGIES ON THE VALUE CHAIN PERFORMANCE OF VIVO ENERGY KENYA LIMITED

**BY**

**CAROLINE MALINDA SOMBA**

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## DECLARATION

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

Signed: ……………………………….Date: …………………………………………

**CAROLINE MALINDA SOMBA**

**D61/72582/2014**

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

Signed: …………………………………...Date: ……………………………………………

**PROF. ZACHARY B. AWINO**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

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# DEDICATION

I dedicate this project to the entire Somba's family.

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **RBV** | Resource Based View |
| **DC** | Dynamic Capability |
| **OMCs** | Oil Marketing Companies |
| **LPG** | Liquefied petroleum Gas |
| **KEBS** | Kenya Bureau of Standards |
| **USD** | United States Dollar |
| **US** | United States |
| **BP** | Beyond Petroleum plc |
| **CNOOC** | China National Offshore Oil Corporation |
| **CIM** | Chartered Institute of Marketing |
| **ERC** | Energy Regulatory Commission |
| **OTS** | Open Tender System |
| **VCA** | Value Chain Analysis |
| **KPRL** | Kenya Petroleum Refineries Limited |
| **KPC** | Kenya Pipeline Company |
| **NOCK** | National Oil Corporation of Kenya |
| **BOP** | Balance of Payment |
| **PC** | Personal Computer |
| **PIEA** | Petroleum Institute of East Africa |
| **KAM** | Kenya Association of Manufacturers |
| **SCM** | Supply Chain Management |
| **HSSE** | Health Safety Security and Environment |
| **BV** | Besloten Vennootschap (Limited Company in the Netherlands) |

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# ABSTRACT

This study sought to determine the influence of adopted strategies on the value chain performance of Vivo Energy Kenya Limited in developing competitive advantage. To achieve the objective of this study, the researcher used a descriptive case study which was structured as a qualitative research. The population of the study was the supply chain manager and the country marketing manager. This study used both primary data and secondary data sources. Primary data was collected using an interview guide which was administered by drop and pick later method at an agreed time with the researcher followed by a face to face interview. Secondary data was collected from various sources like journals, newspaper articles, company websites, publications including various reports and records of past events that were also reviewed to compile evidence of competitive strategies that had been observed. Quantitative data was collected using an interview guide and was analyzed by the use of excel and presented through tables. Qualitative data was analyzed using content analysis which is the best suited method of analysis in a case study. The study found out that Vivo Energy Kenya Limited was owned by three key shareholders namely Vitol Trading, Royal Dutch Shell and Helios investment partners with the core area of sales and marketing of Shell Branded Fuels, Liquefied Petroleum Gas and Lubricants. The study also found out that the company size had contributed to industrial supply chain and the company had used convenience stores, devolution of storage facilities and maintaining optimal HSSE standards strategies in its value chain management. Vivo Energy Kenya reviewed its value chain strategies after one year. The company's key stakeholders included customers, the government, Joint venture partners and other oil marketing companies through the open tender system conducted every month. The company adopted the various value chain management strategies due to the desire to boost market share, the focus to satisfy its customers, consideration of the environment, government policies that changed from time to time and also to stay ahead of its competitors. Strategic value chain management had contributed to financial performance with increased profitability and non-financial performance through increased employee morale and customer satisfaction. Value chain management strategies also enhanced good business practice and brand loyalty which had led to direct positive financial impact to the company. Value chain strategy management had played a key role in improvement of the short-term and long-term performance by focusing on customers which had resulted to an increase in market share significantly and growth had been inevitable. Improvement in the skills and technological development of Vivo Energy Kenya Limited had been witnessed by focusing on efficiency and effective processes. The study revealed that Vivo Energy Kenya Limited faced many challenges in day-to-day running of the business across the country. The challenges included government regulations imparting the oil industry, competition from other oil marketing companies and constrained infrastructure in Kenya and the East African region. The challenges were addressed through lobbying for policies that favored conducive business environment through Supplycor Kenya Limited and building great relations with government agencies such as the Kenya Revenue Authority, Energy Regulatory Commission and Kenya Bureau of Standards.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background

A value chain is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market (Porter, 1985).Value chain is the process or activities by which an organization adds value to an item, including manufacturing, promotion, and the provision of after-sales services (Ryszard, 1996). The basic concept of value chain has been used by various people in strategic management field to explain the success of various firms who are aiming at differentiation or low-cost strategy.

Cost analysis strategy can employ value chain by outlining a firm's value chain and allocating operating costs and assets to various activities. Cost advantage is achieved if firm is able perform value activities at a lower cost than its competitors. The overall performance and growth of a firm, therefore,depends on its value chain strategy. Depending on which aspect of organization performance is being considered, whether growth in market share, revenue, and overall resource capability, value chain management could improve an oil marketer's performance (Ryszard, 1996).

This study was anchored on the theory of Resource Based View (RBV) and dynamic capability theory. The RBV helps in understanding the concept of value chain analysis. It is a model that appreciates resources as crucial to superior performance of a firm. A resource is valuable to an extent that it assists firms creating strategies that capitalize on opportunities. According to Barney (1991), resource-based theory emphasizes that for a

firm to remain competitive and at a cost advantage; it needs to have both strategic resources and other resources. He argues that resources can be tangible or intangible. Tangible resources include things like a car, building, machinery, and equipment. Intangible resources include trademarks, patents, and goodwill. These resources must be heterogeneous and immobile. Heterogeneous means resources are different from those of competitors e.g. skills and capabilities. Immobile resources mean they do not move from company to company hence companies cannot imitate rival's resources and implement similar strategies (Barney, 1991).

Resources are valuable if assist in increasing the value offered to customers by an organization, which can be done by either increasing differentiation and/or reduce the cost of production. Dynamic capability theory focuses more on the issue of competitive survival rather than the achievement of competitive advantage, focusing on the firm's ability to quickly arrange and reconfigure externally sourced competencies. DC conjectures that firm-level differences in capabilities are associated with asset positions, firm processes and paths (Barney, 1991).

With continued globalization, many oil marketing companies have found themselves victims of external shocks such as competition from online retailers, foreign currency fluctuation and global fluctuation of crude oil prices. Markets like China and Russia represent a big demand for the globally produced commodity hence the need to have a strategic supply chain. Differentiation and cost advantage strategies may differ from industry to industry although, in oil marketing subsector, the parameters may be considered similar. The influence of strategy in the value chain needs to be understood in order to appreciate why firms use value chain analysis to achieve competitive advantage.

To improve their competitive advantage, many firms in the oil industry both local and international adopt a value chain strategy with an aim of growing their market share through performing its activities better than competitors and at a lower cost than competitors would do. The research project sought to find out the role of strategy in the value chain performance of the oil industry in Kenya and strategies taken into consideration by one of the major Oil Marketing Companies (OMCs) in Kenya, Vivo Energy. All the service streams at Vivo Energy; retail stations, Liquefied Petroleum Gas (LPG), Lubricants, Jet fuel and Oil fuel was studied within the Kenyan context.

### 1.1.1 Concept of Strategy

Strategy is an advanced plan to achieve one or more objectives by a company under uncertain conditions (Freedman, 2013). Porter (1985) defined strategy as the broad formula for how a business competes, what goals and what policies will be needed to achieve those goals and the combination of these goals for which the firm is endeavoring and the means by which it is seeking to get there. A good organizational strategy helps a firm in making decisions such as determining the long-term direction and determining the market scope of an organization. Strategy helps management in understanding the company and the industry they are operating in, achieving growth in a dynamic environment, and creating a vision and direction for the organization as a whole.

Competitive strategies position a firm within its industry and determine whether its profitability is above or below the industry average. The two most simple types of competitive advantage that a firm can apply include differentiation and low cost. When combined with the range of activities which a firm aims to achieve it leads to cost

leadership, differentiation and focus. In cost leadership, a firm produces at a lower cost compared to its rivals through economies of scale, embracing technology and preferred access to raw materials among others. In a differentiation strategy, a firm aim at being unique in areas widely valued by its customers through packaging, online sales with prompt deliveries among others. With this, a firm is able to hedge against rivals by winning customers and charging a premium price. Focus rests on a cost advantage and differentiation on a specific market segment that a firm focuses on. Competitive strategies are geared towards customer satisfaction by doing significantly better than rivals (Porter, 1985).

### 1.1.2 Value Chain Analysis

In strategic management, there are several strategies employed in the business management and development, among them the value chain analysis. According to Michael Porter, Value Chain Analysis (VCA) refers to activities within a firm that add value to its services and products, and that all of these activities should be run at an optimal level if the organization is to improve its competitive advantage (Porter. 1985).

Michael Porter's value chain model is set in the context of a manufacturing firm. In his book, Porter argues that business's activities could be split into two primary activities and support activities. Primary activities includes Inbound logistics which refers to the process of receiving, warehousing and distributing the raw materials used in production, Operations which refers to all activities required to convert inputs into outputs for both services and goods, Outbound logistics which involves collection, storage and distribution of the final product to customers, Sales and marketing which involves brand awareness undertakings like promotions, advertising, decision on distribution channels,

product costing, and customer relationships management of the end product to ensure correct consumer group is targeted to the correct consumer groups and finally Service which refers to all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered. This stage includes activities like installation, training, repairs and maintenance, warranties as well as after-sales services.

Support activities in Porter's value chain refer to activities that help primary functions and consist of the following; Procurement which is the process of obtaining raw materials to be used in production, Technological development which includes information technology equipment, software, hardware, processes and technical knowledge employed to assist in the firm's transformation of inputs into outputs, Human resource management which involves recruitment, development and retention of proper employees to help design, build and market the product and finally Firm infrastructure serving the company's needs and ties its various parts together, it consists of functions or departments such as accounting and finance, legal, planning, public relations, government relations, quality assurance and general management (Porter. 1985).

Value chain helps a company identify areas that can be optimized for maximum efficiency and profitability. Although primary activities increase value directly to the production process, this does not mean they are necessarily more important than support activities (Porter, 1985). According to O'Sullivan & Geringer (1993) a value chain includes what the firm can realize with the available resources to achieve its competitive advantage and value addition. Both primary and support activities contribute to value addition in a supply chain hence increasing a company's competitive advantage.

### 1.1.3 Strategy and Value Chain Analysis

Supply chain management has been considered as one of the most popular operations strategies for improving organizational competitiveness. Industries are continuously going through challenges including customer satisfaction with high-quality products at a low cost. To overcome the challenges, organizations employ various strategies including product differentiation, cost leadership, value chain among others. Value chain analysis is a strategy tool used to analyze internal activities of a firm, recognizing which activities are more valuable to the firm and which ones need to be improved to provide a competitive advantage.

Firms can compete through cost or differentiation advantage by performing activities better than competitors. In Michael Porter's value chain model, primary activities add value to the final product directly while support activities add value to the final product indirectly. Strategy is vital because of the limited resources available to achieve these goals. Strategy generally involves setting goals, determining actions to achieve the goals and mobilizing resources to execute the actions (Mintzberg, 1996).

In order to smoothly run the various systems of the value chain, different strategies need to be employed. The more value an organization adds, the more profitable it's likely to be. The different strategies can result to cost leadership and/or differentiation. Whether through the pursuit of economies of scale, use of appropriate technology or just seeking to be unique amongst the customers, strategy is very important in value chain operation (Porter, 1985).

### 1.1.4 Global Oil Marketing Industry

The petroleum industry consist of processes like exploration, extraction, refining, transportation which is mostly done by pipeline and tankers and marketing of petroleum and petroleum products. The oil and gas industry is usually divided into three segments: upstream, midstream and downstream. The upstream industry includes the process of searching for potential oil and gas fields, drilling wells during exploration and the drilling for production which brings the crude oil and natural gas. Midstream operations include gathering, refining, transportation, storage through terminals and underground facilities and technological monitoring and maintenance of the pipeline. The downstream industry includes activities like marketing and distribution of petroleum and petroleum products which are byproducts of the upstream and midstream industry (API, 2015).

Oil retail markets evolve from developing to develop through three stages: early, transitional and late. Early stage markets like China and Russia represent a large portion of the world's incremental fuel demand and offer attractive growth potential, transitional markets offer the greatest potential for profits as there is minimal regulation. Prices begin to float and competition remains limited to traditional retail formats. An example of a market in transitional phase is Brazil. Late stage market is characterized by intense competition, lower margins and the rise of new business models and players such as large and efficient gas stations, competitive prices; easy access highway formats with fast foods, car wash and other facilities in convenient urban locations (Benayoun & Whittaker, 2009).

Before entering a new market, oil retailers must determine its stage of development by considering factors like the role of dealers, independent retailers and large national players, the extent of access to supply and infrastructure, the degree of regulation, and the sophistication of retail formats combining food, fuel and other products and services (Benayoun & Whittaker, 2009). A research done by Deloitte (2016) encompassing companies' fiscal years ended through June 2015 shows that oil marketers are currently facing the competitive threat of online retailing, the challenge of cybersecurity and the difficulty in translating the tastes and preferences and price sensitivities of a very fragmented consumer market.

The global oil retailing market is affected by a myriad of external shocks among them fluctuation of the United States Dollar (USD) against other currencies, global crude oil prices, inflation rate among other factors. In the past year, the USD has risen strongly against the world major currencies driven by low oil prices, a relatively stronger U.S economy, expectation of tighter U.S monetary policy and the easing of monetary policy in Europe and Japan. Also a buildup of foreign debt usually dollar-denominated in emerging markets means that dollar value appreciation means higher risk of default (Deloitte, 2016).

Oil prices in the past two years have dropped significantly. This is as a result of a strident increase in shale oil production by the United States of America (USA), a decision by Saudi Arabia to increase daily output, and a relatively weak demand in countries like Japan, China, Europe and major emerging economies. Low inflation discourages business investment. In developed countries including China, inflation rates have been historically low despite aggressive monetary policies by governments which

have discouraged business investment. Demand has however slightly increased in developing economies especially in Africa who are currently investing in infrastructure like road construction, power production and real estate which demands a great deal of energy. This demand is however not big enough to affect global prices (Deloitte, 2016).

Major oil retail markets include the Unites States, China, Europe, Japan and emerging markets like Mexico, Turkey, South Africa, Indonesia among others. Africa oil retail market is marred with reduced profit margins, increased competition and official retail price capping by governments resulting to big oil marketing firms vacate the market, shifting focus to more lucrative exploration and production activities. The firms include Caltex (Chevron), Beyond Petroleum plc (BP), Mobil, Agip and Esso and recently Shell which licensed Vivo Energy to operate a retail business in Africa (Deloitte, 2016).

### 1.1.5 Oil Marketing in Kenya

Oil marketing in Kenya began in 1903 during colonial times where petroleum products mostly kerosene and gasoline were imported fully refined. Kerosene was the main import which was done in tins but later gasoline was imported in tins and drums. Royal Dutch Shell established the first depot on the Mombasa Island at Shimanzi. Importation of refined petroleum products continued until after independence in 1963 when Royal Dutch Shell and British Petroleum (BP) invested on a crude oil refinery in the Mombasa area named East African Oil Refineries Limited with each party owning 50% (Deloitte, 2013).

BP and Shell carried out exploration before independence drilling the first exploration well in 1960. In more than 50 years today,many other oil and gas companies have tried their luck onshore and offshore, including Exxon, Total Offshore, Chevron, Woodside

and CNOOC (Deloitte, 2013). The latest firm to carry out exploration recording a success in 2010 is Tullow Oil BV through a joint venture with Africa Oil Corporation. The two companies discovered oil first commercial oil deposits in northern Kenya in 2012. The two companies have since continued to drill with several successes in the same region (Tullow Oil, 2016).

The petroleum industry in Kenya is made up of key stakeholders who include the government through the Energy Regulatory Commission (ERC) which was formally the Electricity Regulatory Board (ERB), Kenya Pipeline Company (KPC), Kenya Petroleum Refineries Limited (KPRL), The Kenya Revenue Authority (KRA), and all oil marketing companies. The Energy Regulatory Commission plays an oversight role in conducting the Open Tender System (OTS), licensing of petroleum import, export, transport, storage, refining, and sale, issuing of construction permits to those who intend to construct petroleum related facilities in order to curb the development of substandard sites (ERC, 2015).

Kenya Pipeline Company is a fully owned state parastatal which is mandated with providing efficient, reliable and safe means of transporting petroleum products from Mombasa port to mainland, which should also be cost effective. It is the only government institution mandated with supply of petroleum products through a pipeline. KPC has achieved this through construction of a pipeline network, storage and loading facilities across the country for transportation, storage and distribution of petroleum products (KPC, 2015).

Kenya Petroleum Refineries Limited (KPRL) is a fully owned government parastatal which was taken over from private investors Essar Energy in 2016. KPRL is mandated to refine crude oil imported from the Gulf region which it sells to the oil marketing companies. The by products include gasoline, unleaded petrol, liquefied petroleum gas, fuel oil and other products like bitumen, and grease (KPRL, 2016).

Reforms in the petroleum industry in Kenya began in 2006 with the amendment of the Energy Act No. 12 of 2006. This led to the transformation of the then Electricity Regulatory Board (ERB) to the Energy Regulatory Commission (ERC) to also regulate petroleum and renewable energy sectors in addition to electricity, including importation regulation, exports, storage and marketing of petroleum and petroleum products. All petroleum operators including marketers are required to observe the provisions for Environment Health and Safety. Petroleum products should also meet the relevant standards in Kenya (ERC, 2016).

The supply chain setup is composed of stakeholders like the government through the ERC, shippers, clearing and forwarding agents, transporters, oil marketers, oil retailers and end consumers. Vivo Energy Kenya is one of the fifty-five oil marketers in Kenya. Being ranked as the biggest in market share, Vivo energy contributed enormously into the supply chain using its massive storage space and retail station network. The company was also a big participant in the Open Tender System which meant it participated in importation of crude oil and refined petroleum into the industry.

Oil marketers play a great role in the petroleum industry supply chain. Kenya is a net importer of petroleum and petroleum products and has a refinery owned and managed by the government through Kenya Petroleum Refineries Ltd (KPRL), a 800 km oil pipeline across the country from Mombasa to Nairobi and Western Kenya with terminals in Nairobi, Nakuru, Eldoret and Kisumu, run by the Kenya Pipeline Company (KPC). The sector also has over 30 oil marketing companies comprising of five big companies namely Shell, Total, Kenol/Kobil, Oil Libya, Chevron which are all foreigners owned, and other smaller oil marketing companies which include the Government owned National Oil Corporation of Kenya (NOCK; ERC, 2015).

### 1.1.6 Vivo Energy Investments BV

Vivo Energy Investments BV is a downstream petroleum company headquartered in Netherlands operating 1500 Shell branded service stations in 16 countries in Africa. Its core mandate is to supply, store, distribute and retail a range of petroleum products under the license of Shell. Vivo Energy was established in 2011 to distribute and market Shell-branded fuels, lubricants and liquefied petroleum gas (LPG) in Kenya, Botswana, Guinea, Burkina Faso, Cape Verde, Ghana, Ivory Coast, Mali, Madagascar, Senegal, Mauritius, Morocco, Mozambique, Namibia, Tunisia, and Uganda (Vivo, 2015).

Vivo Energy is a joint venture between Vitol Investments (40%), Helios Investment Partners (40%) and Royal Dutch Shell (20%), and Vivo lubricants is 50% owned by Shell and 50% owned by Vitol and Helios. Helios Investment Partners is private equity firm focusing on businesses in Africa while Vitol Trading is one of the world's largest independent energy trading companies whose core mandate is to find, extract, refine, trade, store and transport materials and resources to areas of scarcity (Vivo, 2015).

Since Vivo Energy entered in the Kenyan Market in November 2012, it operated 164 retail petrol stations across the country, a bulk oil storage terminal in Nairobi's industrial area and Mombasa, jet and aviation services at Jomo Kenyatta International Airport, Wilson Airport, Mombasa International Airport and Malindi Airport and a lubricants oil blending plant in Mombasa (Vivo, 2015). The company served different market segments including retail, commercial and resale customers with products ranging from automotive fuels, fuel oil, lubricants, aviation fuels, and liquefied petroleum gas.

Vivo Energy Kenya served all industries including mining, construction, aviation, agriculture among others. Vivo Energy owns and ran a Jet 1A and Avgas in two aviation depots in Wilson airport, Nairobi and Malindi airport at the Kenyan coast. The company also ran partnerships with airlines to provide an in-plane fuel dispensation at Jomo Kenyatta International Airport (JKIA), Moi International Airport, Wilson Airport and Malindi Airport. Vivo Energy being the market leader in Kenya's downstream industry played a key role in the supply chain. With a total storage capacity of about 20 million litres, Vivo energy helped in storing the industry product hence reducing fuel shortages.

Vivo Energy Kenya had contributed positively to the Kenyan economy through employing over 160 people directly and 200 employees indirectly in the retail and loading stations, running various drives including road safety in partnership with logistics company Multiple Hauliers East Africa, offering sponsorship through its corporate social responsibility, sponsoring Quentin Mitchell Rally team in partnership with Chandaria industries limited and in 2015 it became the official sponsor of the Kenya National Rally Championship (Vivo, 2015).

## 1.2 Research Problem

The concept of value chain has been used by strategists to expound the success of various companies in pursuit of differentiation and low-cost strategy. Low-cost strategy can utilize value chain by defining a company's value chain and assigning assets and operating costs to value activities. Cost advantage can be achieved if company incurs lower cumulative cost of carrying out value activities than its competitors. The general performance and growth of an organization therefore depends on its value chain strategy. Depending on the side of organization performance being considered be it growth in market share, revenue, and overall resource capability, value chain management could increase an oil marketer's performance.

This study was focused on the role played by strategy in the supply chain in Kenya and emphasizing on growth strategy. Vivo Energy, a Royal Dutch Shell licensee has been selected as the case study given the fact that it's one of the top OMCs in Kenya. Shell branded products have been in Kenya since 1900 and therefore the company has established solid local, regional and international networks suitable to be investigated on strategy and value chain. The Kenyan oil industry plays a very key role in the Kenyan economy as well as other east African economies. Since the discovery of oil in 2010 in an economy that is mostly depended on agriculture and tourism, Kenya is looking at correcting her balance of payment (BOP) by plummeting or eliminating the need for costly imports of crude and refined petroleum products.

The petroleum industry in Kenya had witnessed enormous growth since the market was liberalized in 1994 and had resulted into very tough competition, corruption at the government level, worsening of Health and Safety conditions in the industry and increase in retail prices. Since then, many independent oil marketing companies were opened within a very short period increasing the total number of oil marketers from seven to thirty five. This as a result led to many multinational oil marketers closing their Kenyan businesses.

The supply chain network in the oil industry is composed of activities like importation, storage, refinery, transportation and retail network. Crude oil is offloaded from vessels and transported to the refinery. Refined products are then transported either to be used as end products or raw materials for production. Any delay in the supply chain affects the end users negatively, therefore, it is important for market players to play their part.

Several studies had been carried out in an effort to find out the relationship of various individual strategies and value chain in Kenya and globally with specific objectives of analyzing the value chain of the petroleum industry. According to Min & Mentzer (2000) on their study on the role of marketing in supply chain management they concluded that the marketing concept has strong influences on the firm management, inter-firm dealings, and the value chain. The study also added that the marketing model as a business philosophy guides companies to look for customer satisfaction at a profit in a harmonized manner. According to Lambert (2014) one of the mechanisms of SCM implementation is compatible partners in terms of corporate philosophies, at least for key relationships so all partners in the supply chain should strive to satisfy customers at a minimum cost hence making a profit.

In his article, Brown (2014) investigated fueling of the oil and gas supply chain and emphasized that logistics in the oil and gas industry stresses a great sense of urgency and need for visibility due to the type of operations which mostly take place in very remote areas of the world and run 24/7/365. In his article on 'How does a company strategy influence the supply chain model?' Ogrinja (2014) used DELL's customer value driven supply chain strategy and concluded that Dell has come up with more supply chains dedicated to a different customer section of the PC industry. These customer segments included online/low volume configurations, retail, online/popular configurations, and corporate clients. Until 2007 all PCs were produced by DELL on order basis which were received electronically from clients using the Direct-to-Customer supply chain. While implementing the channel retailer or end-to-end model of supply chain, DELL used three strategies namely; differentiation, strategy based on flexibility and efficiency strategy.

In her work on Porter's value chain model and competitive advantage in the oil industry in Kenya, Wahito (2011) concludes that value chain can be a useful tool to oil marketers if the organization remains aware of the challenges of operating the tool. Differentiation stems from multiple sources instead of a single factor since it requires wholesale changes to emulate. Also cost leaders must amass cost advantage gained from numerous segments in the value chain that interact and reinforce one another. In a research on the influence of government on the supply chain in the oil industry in Kenya, Mutisya (2014) found out the government impacts the supply chain in the oil industry through licensing players in the industry, certifying quality product distribution through the supply chain, regulating market prices through ERC, Industry benchmarking through its various arms with the overall mandate being the Ministry of Energy Kenya.

A study done by Okwiri (2012) revealed that when an organization institute moral standards, ethics principles, ethics training, codes of ethics, and ethical culture to its supply chain specialists then supply chain process is enhanced. Factors affecting the supply chain by oil companies in Kenya studied by Bahaidar (2013) revealed that constrained infrastructure, price control, open tender system and advance payment of taxes influence the supply chain management to a great extent among the oil marketing firms. However, the advance payment of taxes was found to a negative effect. This shows that strategy and value chain are very important for firms in every industry.

There appeared to be a research gap in the study of supply chain strategy in the oil industry targeting on whether strategy had any role in the supply chain. This study, therefore, sought to bridge this gap in theory, knowledge and practice and set out to evaluate how the influence of the various strategic decisions taken by one firm; Vivo Energy can influence the its own as well as the industry supply chain. What is the influence of adopted strategies in the value chain performance of Vivo Energy Kenya Limited?

## 1.3 Research Objective

The objective of this study was to determine the influence of adopted strategies on the value chain performance of Vivo Energy Kenya Limited.

## 1.4 Value of the study

The oil industry has played an important role in the Kenyan economy as a commercial source of energy and economic development for many decades. With the increase in demand for energy due to the developing economy and population increase, oil and gas

industry continues to play an essential role to help in meeting this demand. Since the introduction of Energy Regulatory Commission (ERC) in 2006 to regulate prices and ensure fair play in the industry, oil marketers have been forced to relook their value chain ensuring they have a cost advantage over their competitors as well as differentiation of their products and services to meet their consumer needs.

This study would help policy makers like ERC and oil companies management to understand strategy and value chain analysis and use the knowledge to address the challenges of satisfying customer demands with quality products at a competitive price. The government would find this study useful as it would enable them to measure the impact a single marketer would have in the industry which can be helpful in their competition and fairness regulation. The study of the relationship between strategy and value chain had not been well established, especially in the petroleum industry.

This study presented relevant theoretical foundations of strategy and value chain analysis and synced them with the case under investigation and would be helpful to scholars and researchers in understanding the influence of strategy in the value chain in the petroleum industry and initiate further research to cover other industries. Findings of this research would be a useful reference for other researchers in the future.

Due to the fierce competition among oil marketers in Kenya, the knowledge of the influence of strategy on value chain within the industry would be important as it outlines how firms can use different strategies that favor them to streamline their value chain. This study would provide an industry understanding of the need to employ certain strategies to their value chain and help improve the firm's competitiveness.

The findings would also help firms in minimizing costs while maximizing returns which is a concept of value chain. This study would also increase the existing knowledge and information in the petroleum industry in Kenya and in Eastern Africa region where little research has been conducted.

The oil industry played a very key role in global and local economies by powering various industries. Various strategic decisions engineered by oil marketing company's aimed at providing petroleum and petroleum products and services efficiently by having a smooth supply chain. Any delay would be very detrimental in an industry that operates 24/7/365 and sometimes in very remote regions.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

In this chapter, relevant literature is reviewed and discussed. A theoretical foundation is established with discussions on the two relevant theories of strategic management with respect to the study which include Resource-based view (RBV) and Dynamic Capability (DC) theory.

## 2.2 Theoretical Foundation

There are two pertinent theories of strategic management which can be used to explain strategy and value chain. These theories include resource-based view and dynamic capabilities theory.

### 2.2.1 Resource-Based View

The resource-based view theory stresses that firms should look inside the organization to find resources for attainment of competitive advantage instead of looking for a competitive advantage for the organization (Barney, 1991; Peteraf & Barney, 2003). Michael Porter (1985) identified two basic types of competitive advantage; cost advantage and differentiation advantage. Resources play a major role in assisting companies to achieve higher productivity and organizational performance. The first assumption of resource-based view is that skills, capabilities and other resources that organizations possess are different across companies and if firms would have the same amount and blend of resources, they could not employ diverse strategies to outcompete

each other. The second assumption of RBV is that resources are immobile and do not change from company to company therefore companies cannot imitate rival's resources and implement similar strategies in the short run. The resource-based view is centred on internal resources and firm's strengths and weaknesses, compared to the positional or environmental models of competitive advantage which is focused on opportunities and threats (Barney, 1991).

The resource-based theory aids in determining the available resources within the firm and relates them with the abilities of the firm. This is in consideration the profitability and other factors associated with the firm (Colbert, 2004). According to Barney (1991) resources can be categorized into simultaneously valuable, non-substitutable, rare and unique to an extent that firm's physical assets, infrastructure, and labor force satisfy these criteria. Resource-based theory clarifies that all the firms have gained exceptional capability is due to the available unique and non-substitutable resources for the firms which bring more success in the developing economies of the world (Das & Teng, 2000).The RBV also suggests that competitive advantage is mainly achieved from resource heterogeneity and as it is assumed to persist within a firm and immobile across firms (Barney, 1991).

In order to identify its value creating processes, a firm must de-emphasize its functional structure. Firms tend to group themselves as cost, revenue, investment and profit centres and others like departments, divisions or functions may not be very useful in identifying value creating processes (Institute of Management Accounting, 1996). A firm's performance will be measured by its ability to provide high quality products and services to its customers at the least possible cost.

The success of a supply chain is based on resource management by a company. Transforming inputs to outputs as it occurs in the supply chain requires good management of both tangible and intangible resources. RBV helps in explaining why some types of corporate divisions perform better than others, and intra-industry performance differences with firm-specific resources; tangible and intangible assets like skills, capabilities, reputation, brand and equity (Penrose, 1959).

### 2.2.2 Dynamic Capability Theory

The concept of Dynamic Capability (DC) as defined by Teece (2007) is the ability of a firm to purposely adapt an organization's resource base. DC, as defined by Helfat et al. (2007), is the capacity of an organization to purposely create, extend, or modify its resource base. Dynamic capability theory concentrates more on competitive survival rather than competitive advantage, centering on the firm's ability to quickly position and reconfigure externally obtained competencies.

According to Teece & Pisano (1994), assets are legacy possessions like knowledge, technical abilities, competencies that shaped the firm's options for future capability growth. Processes include governance structures, wealth allocation processes and management structures that characterize organizational adaptability. A company's dynamic capability as argued by Teece (2007) encompasses the capability to sense, shape and seize opportunities and threats and to maintain competitiveness through improving, combining, protecting and reconfiguring business enterprise's assets which can be both tangible and intangible, when necessary. Ownership of difficult-to-imitate dynamic capabilities like knowledge is required in today's fast-moving world of internet business environments open to global competition.

DC also embraces the enterprise's capacity to profile the environment in which it operates, develop new processes and products, and implement and design viable business models. To determine and shape opportunities, companies must constantly probe and explore different technologies and markets. They must assess how future technological developments will be like and how and when customers, competitors, and suppliers will react (Nelson & Winter, 1982).

There are three types of capabilities namely: adaptive, absorptive and innovative capabilities. The adaptive capability is defined as a firm's ability to recognize and exploit developing markets available opportunities (Chakravaethy, 1982); Hooley et al., 1992). Absorptive capability refers to organizations demonstrating a stronger capacity to learn from their partners, incorporating external information and converting it into firm-embedded information. Innovative capability, on the other hand, refers to a firm's capability to develop new products and/or markets, through supporting strategic innovative orientation with innovative characteristicsr and processes (Wang & Ahmed 2007). The fast changing markets need the ability to innovate structures and processes in order to stay relevant and ahead of its competitors.

## 2.3 Influence of Strategy on Value Chain

The primary goal of value chain management by firms is the value creation, improvement of efficiency at the least cost possible. Decisions made by companies can be categorized as strategic, operational or tactical. Executive decisions also known as high level decisions and usually made by top executives will set the tone under which decisions at middle or lower level are made (IIyas et al., 2005). As global petroleum markets become increasingly efficient as a result of continued improvement in technology, competition no

longer takes place among different players but between entire value chains across the industry. Companies are progressively adding value and reinventing their strategies in an effort to stay ahead of competition. This has led to the many strategic decisions like strategic alliances, mergers and acquisitions taking place in the industry.

Theoretically, there are several essential actions for a successful supply chain management which include integrated behavior, sharing of information mutually, sharing channel risks and rewards, collaboration, same goal and focus of serving customers, processes integration and partners to build and maintain long-term relationships (Mentzer & Gund, 2009). Different strategies like competitive strategies, differentiation, and cost leadership affect the supply chain of an organization.

According to Ensign (2001) value chain analysis can be used to convey competitive strategies, understand the causes of competitive advantage and identify and develop interrelationships between activities that add value. He further argues that competitive strategies are based on combination of activities in the value chain. Value chain analysis can also be used by firms to ensure they stay ahead of competition through creating value and improving a company's competitive advantage (Ensign, 2001).

Value chain depicts a way that a product gains value as it moves along the path of raw materials to production to end products to delivery and service to the customer. It can be used to explore the impact that each individual activity can have on cost behaviour and differentiation. Value chain helps in appreciating the sources of competitive advantage, which is based on those activities in which a firm has exclusive access to scarce resources like skills, networks, and intellectual property rights (Ensign, 2001).

## 2.4 Downstream Petroleum Companies Supply Chain

The downstream petroleum industry is a significant industry in different ways. Firstly, the daily consumption of oil globally according to the BP Statistical Review of World Energy data in 2016 is 4,331.3 million tonnes with the United States being the biggest consumer at 851.6 million tonnes per day. Majority of the crude oil comes from Middle East countries and is exported to consumer countries in developing and developed countries. The selling price of crude oil is based on its grade which is measured in density and Sulphur content. The lower the Sulphur content the higher the quality and the more it fetches in the market (BP, 2016).

Downstream petroleum industry is defined as activities which take place between the purchase of crude oil and the use of petroleum and petroleum products by the end consumer. These products include gasoline, kerosene, liquefied petroleum gas, fuel oil, lubricant oil, gasoil and residuals like tar, and bitumen depending on the level of crude refining (STI, 2016). The downstream industry is said to be the one closest to the end consumers given its byproducts can be directly consumed by end users.

Companies in the downstream petroleum industry want to increase revenue and market share while minimizing costs and operating at the most efficient levels. With the petroleum products price control in Kenya, many companies find themselves with minimal margins to operate with hence aiming towards a smooth supply chain thus increasing efficiency and reduce wastage. This can only be done through having the right strategic decisions on the value chain by each company.

The supply chain consists of a refinery, storage depots, transporters both to the storage depots and to the retail stations and bulk consumers. Downstream petroleum companies mostly deal with a volatile raw material, crude oil which is characterized by a rigid production and distribution environment that cannot respond immediately to changing demand for the product. A distinctive thing about the downstream petroleum companies supply chain is that the products are commodity-based and substitutable hence competitors within the same part of the supply chain can trade with each other (IBM, 2005).

Compared to the other industries, the downstream production flow in the supply chain petroleum companies is a reversed one; it starts as a few products (crude oil) and creates several products that can be recombined. Product life cycles are longer, the demand is less fickle. Management of petroleum industry supply chain is a difficult task due to its size and relationship with all the other industries in an economy. This industry is directly related to other industries outside oil and gas which include agriculture, manufacturing, transportation among others.

The oil industry is also a very uncertain industry in terms of global crude oil prices, market demand for the end products, and the production yields at the refinery's primary distillation unit (Shah et al., 2011). The objective of each downstream petroleum company is to create a supply chain that improves decision making, reduces associated costs, minimizes inventory balances, makes use assets and expand profit margins. (Latheef et al., 2008).

## 2.5 Emperical Studies and Research Gaps

In this chapter, we review past scholarly work covering strategy and supply chain. These reviews explain the various empirical studies mentioned in section 1.2, and also align the theoretical framework of the strategy and value chain analysis and organizational performance. The core strategic theories relevant to the study reviewed in section 2.2 which includes resource-based theory and dynamic capability theory will guide the process.

Extensive emperical evidence exists on the strategy and value chain analysis in Kenya and worldwide, the strategy implementation process among other aspects. A study by Garrigos et al. (2014) on the Spanish ceramic tile market points out that the importance of technological innovation as a competitive success factor is unquestionable. With the current world of fast changing technologies, companies must make strategic decisions which align their operations with the available infrastructure in order to maximize returns.

Strategic frameworks for value chain analysis as studied by ‘’Institute of Management Accountants,’’ (1996) include industry structure analysis, core competencies and segmentation analysis. The industry structure analysis derives heavily from Michael Porter’s five forces model as a way of consolidating information about an industry structure to evaluate its potential desirability. The study concludes that value chain presents organizations with an overarching tool for improving their strategic planning and resource allocation.

A research conducted by Ogrinja (2014) on DELL computers supply chain highlights that there are different customer categories especially at an international level who wish to purchase in different ways; online small orders, retail, wholesale and online in bulk and in order to satisfy those customer needs DELL decided to change its sale and supply chain strategy in order to increase the sales turnover, decrease products delivery time to the clients and increase standard products in the demand structure. He concludes that DELL achieved a smooth transition from Direct-To-Consumer to Channel Retailer value chain through aligning its supply chain resources (people, processes, and technologies) to the customer needs life cycles of the using the end-to-end voice of the customer. DELL has used differentiation strategy, a strategy based on flexibility and efficiency strategy in its implementation (Ogrinja, 2014).

As argued by Brown (2014) different strategies are employed to fit different value chains of companies depending on the nature of operations, location and the magnitude of operation involved. Cooper et al. (1997) point out that effective SCM requires partners to build and maintain close long-term connections and forming strategic partnerships with expected inter-firm relationships with trading partners. In these partnerships, different supply chain models are brought about by different strategic decisions which include partnerships, strategic alliances, and joint ventures. According to Lambert (2014), supply chain scope is influenced by the number of firms involved, the number of functions and activities that should be included in the supply chain and the need for information systems integration.

The factors affecting supply chain of oil companies in Kenya investigated by Bahaidar (2013) concluded that long-term strategic relationships with other suppliers had positively affected storage and transportation of oil products, which form part of the supply chain. Price control strategy also had a significant impact on the efficiency of the SCM system; transportation cost structure and storage. While conducting a study on value chain analysis and organizational performance of beer manufacturing companies in Kenya, Aguko (2014) found out with clear communication networks, joint risk assessment and management and having supplier partnerships with key suppliers can lead to a more efficient supply chain.

Despite a wealth of empirical literature on strategy and supply chain, there appears to be a gap in the study of how specific strategic decisions influence the value chain of a firm in the downstream oil industry. This study seeks to bridge that empirical gap by studying the influence of strategy on the value chain of Vivo Energy Kenya limited as a case study for the entire downstream oil industry subsector.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents the methodology used in the study. A brief description of the research design discussing the type of research as a qualitative case study and its unique characteristics was presented. Further, data collection and analysis were presented. Generally, this chapter helps link the research problem including the objectives discussed in chapter 1 with the theoretical framework in chapter 2.

## 3.2 Research Design

This study is designed as a descriptive case study and is structured as a qualitative research on the influence of adopted strategies on the value chain performance of Vivo Energy Kenya limited. A case study is a comprehensive analysis usually focusing on a particular research problem of an individual, group or organization (Merriam, 1998). A case study as defined by Yin (2009) is an empirical inquiry about a present-day phenomenon set within its real-world context- especially when the boundaries between phenomenon and context are not clearly evident. A case study can be very important in identifying and delimiting a case and its context as well as distinguishing the phenomenon under study and its context.

A single case study has been used because it provides an opportunity to observe and analyze the role of adopted strategies in the value chain performance of Vivo Energy Kenya, a downstream oil industry in Kenya. A single case study is seen as a good method

to challenge theoretical assumptions. Within-case process tracing has also been identified as beneficial in addressing the complexity of path-dependent explanations and critical stages – as for example with the development of political regime types – and their constituent elements of causal possibility, contingency, closure, and constraint (Bennett & Elman, 2006).

## 3.3 Data Collection

The data collection was conducted using both primary and secondary data collection methods. Primary data was collected by use of interview guides to the supply chain manager and the country marketing manager, Vivo Energy Kenya Limited. Prior to the data collection process, the researcher was referred to the organization under study by the University of Nairobi as given in Appendix 2. Interview guides consisted of closed-ended questions (to gather factual information about Vivo energy Kenya limited) and open-ended questions (to gather other facts not covered in the study but are important in the study of strategy and value chain analysis) (Foddy, 1993).

The questions administered were both structured and unstructured. The use of unstructured questions allowed the responded to express their understandings openly and produce a higher intellectual load in the sense that the respondent has to think harder to come to an answer. This gave the respondent freedom to provide as much information. Structured questions, on the other hand, relied on closed- ended questions and required a lower cognitive load on the respondent and were easier for the researcher to code and analyze (McNamara, 1999). The interview guide was sent to the respondents by email one day in advance to help with familiarizing with the questions then a face to face interview was conducted.

The interview guide was divided into three sections; section one gathered general information of the company, and also captured all the existing data on the value chain of the firm in the past three years. Section two captured information on the influence of adopted strategies on the value chain performance of the firm and finally section three focused on the influence of adopted strategies of Vivo Energy Kenya on its overall value chain performance.

## 3.4 Data Analysis

Data collected from the respondents was first verified and validated to ascertain the accuracy and correctness of the information given. The analysis was mainly qualitative in nature and content analysis method was used for the case study analysis. Content analysis is a technique for methodically describing written, spoken or visual communication. It provides a quantitative (numerical) description. Content analysis is also used to analyze new material recorded by researchers, and to classify open-ended responses to interview or survey questions (Stambor, 2005).

Content analysis is considered valuable in organizational research because it allows researchers to recover and examine the degrees of organizational behaviors, stakeholder perceptions, and societal trends. It is also an important bridge between purely quantitative and purely qualitative research methods. Content analysis allows researchers to analyze socio-cognitive and perceptual constructs that are difficult to study via traditional quantitative archival methods (Rhonda et al., 2007).

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter focuses on the analysis and the interpretation of the data that was collected by use of the interview guide attached in Appendix one.

### 4.1.1 Data Analysis and Results

This study was carried out to determine the influence of strategies on value chain performance adopted by Vivo Energy Kenya Limited to develop competitive advantage, create value within the organization, and to establish the challenges of supply chain management strategies adopted. Data was collected from the Supply Chain manager and the Country Marketing manager. The interview guide had questions that helped to achieve the objective of this study. Below are the findings of the study:

### 4.1.2 Organizational Characteristics of Vivo Energy Kenya Limited

This study helped to understand the general organizational characteristics of Vivo Energy Kenya including shareholding structure, number of employees and year the company commenced operation. Vivo Energy Kenya Limited was incorporated in 2011 and took over the Royal Dutch Shell brand in November 2012. The company is a private joint venture owned by Vitol which a 40% share value, Helios Investment Partners 40% and Royal Dutch Shell 20%. The shareholders are all foreign companies based in the Netherlands. Their core area of activity includes distribution and marketing of Shell-branded fuels and lubricants and Liquid Petroleum Gas.

Vivo Energy Kenya had employed various sectors or arms to help manage its value chain and help reach their customers in the most efficient way possible. These included retail, commercial, supply, and distribution. Retail business dealt with managing petrol stations countrywide through daily customer interactions. The petrol stations stocked refined petroleum, Shell branded lubricants and Liquefied Petroleum Gas. Commercial business arm dealt with distribution of fuel and Shell branded lubricants and LPG in bulk to reseller customers and distributors.

Commercial customers include dealers, distributers of lubricants and LPG as well as garages. Supply and distribution was the key arm of Vivo Energy Kenya Limited. Activities included sourcing through Open Tender System (OTS), receiving products, storing and distribution to the customers in the most cost-effective, safe and reliable manner. In 2013 for instance, Vivo Energy Kenya won tenders worth approximately USD. 250,000,000 for importation of diesel and Jet A1 products through the Open Tender System (OTS). The four vessels totaled to 220,000 metric tonnes which would meet the demand both in Kenya and neighboring countries (Vivo, 2015).

**Table 4.1: Company Ownership**

| **Company** | **Percentage Ownership** |
| --- | --- |
| Vitol Company Ltd | 40.00% |
| Helios Investment Partners | 40.00% |
| Royal Dutch Shell | 20.00% |
| Total | 100.00% |

**(Source: Primary Data)**

### 4.1.3 Market Share

This study helped to understand the growth of market share of Vivo Energy Kenya Market share which stands currently second behind Total Kenya Limited. During the first year of operations, the market share increased by 3.1% mostly attributed to the company's aggressive marketing strategy and expansion of its distribution network through opening more retail outlets. The company however ceded a 1.9% market share in 2015 due to new entrants in the market and also smaller oil marketer's new strategies of investing heavily in the local and regional distribution business. These marketers included Hashi Energy, Gulf Energy, Fossil Energy, Galana Oil Kenya Limited, Galana Petroleum, Tosha, and Oryx Energy among others.

Retail business was Vivo Energy's gateway to reaching more than half a million customers each day through the petrol stations countrywide. Some of the factors that had contributed to the growth of Vivo Energy Kenya Limited's market share included different partnerships the company entered into including that of Kenya Tourism Board's Maina Kageni Road Trip tour, opening several motorbike service centres across the country, which made Vivo Energy the first company to do so and also partnership with Kenya Tour Operators. The company had also offered free fuel in some regions like Kiambu country as well as offering discounted fuel all in an effort of brand awareness (Vivo, 2015).

**Table 4.3 Market Share**

| **Year** | **Market Share** | **% Change** |
|---|---|---|
| 2013 | 16.90% | - |
| 2014 | 20.00% | 3.10% |
| 2015 | 18.10% | -1.90% |
| **Total** | **55.00%** | **1.20%** |

**(Source: Primary data)**

## 4.2 Influence of Strategy on Value Chain Management

This study involved research on whether strategies adopted by Vivo Energy Kenya Limited helped create value and competitive advantage. It was revealed that the size of Vivo Energy Kenya Limited had contributed to industry supply chain through its large storage depots and the financial ability to participate in the Open Tender System. The researcher found out that the company employed customer focus approach, efficiency and maintaining optimal HSSE standards strategies of value chain strategies in its value chain management. The study also revealed that due to increased competition and rapid change in technology and government regulations, Vivo Energy Kenya reviewed its value chain strategies after one year.

The researcher also wanted to understand the drive in the type of value chain strategies that Vivo Energy Kenya Limited adopted in its primary and secondary value chain activities. The study focused on activities like inbound logistics, operations, outbound logistics, sales and marketing, service, firm infrastructure, human resource management, technology and procurement. This included the desire to boost market share in order to be

the most respected energy business in Africa, the focus towards customer satisfaction and building brand loyalty, consideration of the environment in terms of the impact the business would have, transparency and accountability in procurement process, satisfied and motivated employees, government policies through ERC and KRA that changed from time to time and increased competition in a market with regulated margins.

## 4.3 Value Chain Management and Organizational Performance

This study was conducted to find out if the value chain management strategies contributed to the direct improvement of Vivo Energy Kenya Limited financial performance. This was evidenced by increased market share, increased brand presence, convenience stores initiative dubbed 'more than just fuel' which included partnerships with Linton chemist, Java Coffee house, and Tuskys Supermarket among others. However, the respondents did not share the actual company profitability in the years citing confidentiality of the information.

The research found out that the company improved operations efficiency by building strategically located depots and partnering with enough transporters in order to ensure there were no fuel product shortages or delays amongst its customers countrywide. The high employee morale was attributed to strategic decisions like employee inclusivity culture, sense of belongingness, teamwork and the opportunity for growth accorded to each of Vivo Energy Kenya employees. The company aimed at being an industry leader in HSSE through aiming at zero industrial accidents.

This study found that the value chain strategies adopted helped in increasing the balanced scorecard of Vivo Energy Kenya Limited through improving accessibility of Shell branded products to its customers across the country and venturing into areas the company did not operate before like areas in Western and Northern Kenya regions. Value chain strategies adopted also led to an improvement in the skills and technological development of Vivo Energy Limited by focusing on efficiency and processes that worked, investing in technology and skilled labour, training and mentoring their employees, which resulted to great innovations and high employee morale, improved financial performance and business process efficiency.

The study revealed that Vivo Energy Kenya faced many challenges in the day-to-day running of the supply chain operations across the country. The challenges included changing government regulations which were sometimes not favorable to market operations, competition from government owned NOCK which denied the company a level playing ground, and constrained infrastructure in Kenya and the East African region. The challenges were addressed through lobbying for policies that favored the business environment through Supplycor Kenya Limited, an umbrella body for all the oil marketing companies in Kenya, and building great a rapport with government agencies such as the Kenya Revenue Authority, Energy Regulatory Commission and Kenya Bureau of Standards (KEBS) as well as staying compliant to all government laws and regulations.

## 4.4 Discussion

This section discusses the research findings of the study and relates the objectives with the existing literature. This study was done to achieve the objective 'what is the influence of adopted strategies on the value chain performance of Vivo Energy Kenya Limited?' This was done by conducting a face to face interview with the country marketing manager and the supply chain manager of Vivo Energy Kenya Limited at their Laiboni Centre office. The data collected was analyzed through content analysis which is a good analysis method for describing written, spoken or visual communication.

This study was anchored on the resource-based view and dynamic capability theories. According to the resource-based view, resources are very important in helping a company achieve a higher organizational performance. The theory assumes that skills, capabilities and other resources that organizations possess differ from one company to another and that resources are not mobile hence companies cannot replicate rival's resources and implement the same strategies, at least in the short run. The resource-based view focuses on internal resources, the firm's strengths and weaknesses, in contrast to the positional or environmental models of competitive advantage which focuses on opportunities and threats (Peteraf & Barney, 2003).

The resource-based view is in line with the objective of this study because in order to achieve a smooth value chain which translates to high organizational performance, a company must employ resources within which are deemed unique and immobile (Barney, 1991). For example, Vivo Energy Kenya employed qualified staff, trained and mentored them in order to add value and improve innovation and efficiency to the company's value chain.

According to dynamic capability theory, competitive survival is emphasized compared to competitive advantage. DC also embraces the enterprise's capacity to shape the environment in which it operates, develop new products and processes, and implement and design viable business models. The downstream petroleum industry in Kenya which is highly regulated hence competitive is also characterized by thin profit margins. (Teece, 2007). Vivo Energy Kenya had come up with convenience stores strategy to ensure its customers get more than just fuel. This included Java coffee shops, pharmacies, and Tuskys supermarket mini-branches. These had overally increased the market share of the company which translates to achieving the objective of this study. The discussion on the topic was based on the following topics:

### 4.4.1 Marketing Strategy

In order to create brand awareness, Vivo Energy Kenya had engaged in aggressive marketing and expansion of distribution network through opening more retail outlets which led to increased demand for existing products and new products like Shell FuelSave. In 2013 alone, Vivo Energy Kenya limited opened ten new retail stations in major towns including Nairobi, Kiambu, Thika, Machakos and Kakamega, and nineteen more retail stations in 2014. The company had also partnered with Kenya Tourism Board's Maina Kageni Road Trip tour, Kenya Tour Operators to provide members with discounted fuels and oils as well as opened several motorbike service centres across the country, which made Vivo Energy the first company to do so (Vivo, 2015).

Another sales and marketing strategy that Vivo Energy Kenya had employed is partnering with individuals who would like to run petrol stations. The deal involved Vivo Energy Kenya building and maintaining the retail station according to the Shell global

standards, supplying Shell-branded petroleum and petroleum products to the retail outlets and helping with branding and repairs and maintenance. The dealers ran the station at an agreed upon margin. In order to motivate the dealers, Vivo Energy Kenya had a campaign for best dealers based on volumes of fuels sold giving cash rewards (Vivo, 2015).

Vivo Energy Kenya marketing strategy had ensured a continued brand awareness resulting to the net growth in Market share through the three years under study. Customer target marketing as studied by Ogrinja (2014) in a case of DELL which came up with value chains dedicated to different customer segments is seen to increase company performance. Therefore marketing strategy has a positive influence on the value chain hence the objective of this study is achieved.

### 4.4.2 Convenience Stores Strategy

The study found out that Vivo Energy Kenya had entered into partnerships with various stores to offer customers a one-stop shop. The stores include Tuskys supermarket, Java Coffee House, Halton's pharmacy, Subway, Inscor Africa with their fast food chains Galito's, Chicken Inn and Pizza Inn and various mobile money service providers and banks. This move had been driven by a steady growth in customers seeking for convenience rather than just fuel (Vivo, 2015).

This strategy banked on the busy middle class in Nairobi and other major cities who had limited time to go shopping on malls and all they were looking for was a one-stop shop. This had given Vivo Energy Kenya a source of revenue besides non-fuel avenues as well as venturing into real estate through lease rentals at the retail stations (Vivo, 2015).

According to Mentzer & Gundlach (2009) it is vital for organizations to integrate its supply chain management to supply and demand management through collaborate with its suppliers, intermediaries, third-party service providers. Since Vivo Energy Kenya Limited signed its first convenience stores deal in 2014, the company had seen a significant growth in revenue both fuel and non-fuel. This had contributed to its market share growth throughout the years hence achieving this study's objective that strategy has an influence on the supply chain of a company.

### 4.4.3 Devolved Product Storage Strategy

Vivo Energy Kenya had constructed strategically located storage facilities across the country. The company facilities were located in Mombasa Shimanzi area to serve the coastal region and lower Eastern, Nairobi industrial area to serve areas of Nairobi, upper Eastern and Mount Kenya and Kisumu city shared facility to serve Western Kenya. The company also owned two aviation depots in Nairobi's Wilson Airport and Malindi Airport for its Jet A1 and Avgas respectively. This had given Vivo Energy a command in the aviation industry in Kenya making it a preferred supplier by various airlines including Kenya Airways (Vivo, 2015).

Logistics in the oil and gas industry stresses a great sense of urgency, seamless movement and timeliness due to the nature of product. Planning in the supply chain need to be strategic and convenient to save on cost, time and conveniently meet customer needs (Brown, 2014). Vivo Energy Kenya had planned its storage facilities conveniently to help reach its customers located across the country at the minimum cost possible. The objective of the study on whether the strategies that the company had adopted influenced value chain performance is therefore achieved.

### 4.4.4 Systems Efficiency Strategy

The researcher also noted that through technological development, human resource development, and operational capacity Vivo Energy Kenya had been able to improve efficiency in all its internal processes resulting to lower production cost hence increased profitability. Integrating the group operating systems with other functions of its operation had allowed good decision making on all levels of the supply chain. Vivo Energy Group used uniform accounting and management ERP systems known as SAP to ease financial reporting, inventory management and improve efficiency throughout its supply chain (Vivo, 2015).

The study revealed that Vivo Energy Kenya Limited was still making huge investments through construction of new retail stations, new 23 million diesel storage tank in Mombasa county and several other sponsorships in their quest to meet the growing market demand for Shell products and to make their brand more visible to customers across Kenya. This strategy employed by the company has helped reduce delays in product delivery to customers, minimize losses on inventory and increased sales volume through improved market share hence the objective of this study is achieved (Vivo, 2015).

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The objective of this study was to determine influence of adopted strategies on the value chain performance of Vivo Energy Kenya Limited. The study established competitive advantage, customer focus, efficiency, employee focus and challenges of implementing value chain management strategies by Vivo Energy Kenya Limited. This section gives a summary of findings, conclusion, recommendation of the study, limitation of the study and suggestions for further research.

## 5.2 Summary

The study found out that Vivo Energy Kenya started distributing and marketing Shell branded fuels and other petroleum products in Kenya on 1$^{st}$ November, 2012. Vivo Energy Kenya Limited ownership consisted of three key shareholders namely Vitol Trading, Royal Dutch Shell and Helios Investment Partners. Ownership was as follows; Vitol owned 40 percent, Helios Investment partners owned 40 percent and Royal Dutch Shell the remaining 20 percent.

Vivo Energy Limited adopted the various value chain management strategies due to its desire to boost market share and become the most respected energy business in Africa by doing things the right way and putting Health, Safety, Security and Environment (HSSE) first. The research also found out that the focus on customer satisfaction, consideration of the environment, maintenance of high standards of HSSE, motivated employees among

other factors contributed to the net growth of market share of 1.2% during the years 2013 to 2015. Vivo Energy Kenya stakeholders included the government through Kenya Revenue Authority, Kenya Pipeline Company, Energy Regulation Commission, customers, clearing and forwarding agents and other oil marketing companies operating in Kenya and the East African region.

Also, good value chain management enhanced good business practice, created efficiency and was found to be customer focused since customer satisfaction leads to direct positive financial impact to the company. Since the entire downstream oil industry sells uniform products, good value chain management strategies was found to have contributed to Vivo Energy Kenya Limited short-term and long-term performance by pushing for government policies that created an enabling business environment and increased partnerships . The desire to build a long lasting relationship with customers, distributors and suppliers had contributed to the improvement of Vivo Energy Kenya's outbound and inbound logistics throughout the years.

Value chain strategy had played a key role in improvement of the long-term performance by focusing on customers and employees leading to an increase in market share significantly and growth was also inevitable. Having satisfied and motivated employees was considered very important to Vivo Energy Kenya. The company believed that employees were key to brand advertisement thus kept them motivated through training and capacity development and conducting a quarterly peer review. All this was driven by the company's vision of becoming a respected energy business in Africa.

## 5.3 Conclusion

The supply chain of the downstream oil industry in Kenya included the importation, refining, transportation and retail of petroleum and petroleum products to the final consumers. The common concern in the supply chain of the downstream oil industry, like any other industry, is to deliver products to consumers at the minimum cost possible and efficiently. A unique characteristic of supply chain management in the oil industry is that major decisions like importing of crude or refined petroleum products, location of retail service stations and choice of distributors are made in advance and includes all stakeholders in the industry. The downstream petroleum industry is characterized by narrow product differentiation hence companies cannot differentiate themselves by launching a new product but only through doing things differently.

From the study, the research confirmed that Vivo Energy Kenya Limited indeed employed various strategies in its value chain management. These strategies were in different mixes depending on the area of supply chain in focus. This included inbound logistics, outbound logistics, operation, marketing and sales, procurement, service, human resource development, infrastructure and technological development. The success of the strategies in value chain management adopted was visible from the growth in market share and and other non-financial performance. With the current petroleum price regulation in Kenya, many oil marketing companies including Vivo Energy Kenya were left with thin margins to operate with in a highly competitive industry.

## 5.4 Recommendation

Due to the growing economic activities among them tourism, oil exploration and infrastructure development in Northern Kenya and the Mount Kenya region, this study recommends that Vivo Energy Kenya Limited establishes a storage facility in the area that is currently being served from Nairobi. The Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) project is set up to open the region to investors in oil industry, aviation, tourism, information technology and international trade between Kenya, Ethiopia, Sudan and Southern Sudan. Vivo Energy Kenya can benefit through reducing the transport cost per litre as well as timely deliveries to potential clients in the region. This will as a result increase its overall future financial and non-financial performance.

The study recommends that the government should carry out regular audits on OMCs to ensure that all oil companies comply with the regulations provided by the Energy Regulation Commission Act. The government should also work towards ensuring that all players in the oil industry including its own National Oil Corporation of Kenya (NOCK) have a level playing field. This could include severely punishing those dealers found selling adultered fuel.

This research also recommends the scrapping of petroleum price capping in the industry to enable oil marketers practice competitive price leadership strategy. The oil marketing companies should however be monitored to ensure a fair play between the small and big oil companies. This research also recommends removal of Kenya Petroleum Refineries Company (KPRL) from the supply chain or refurbishing it to global standards to ensure efficiency and delivery of cheaper petroleum and petroleum products to the market.

Currently KPRL is using outdated oil refining technology which makes it an additional unnecessary cost in the supply chain of oil marketing industry. The refinery is also costing the Kenyan economy millions of shillings due to inefficiencies in refining imported crude oil when compared with the cost of importing refined petroleum.

## 5.5 Limitations of the Study

Despite the study being detailed and specific, several limitations were encountered. To begin with, the researcher had limited access to vital information about the company like profitability due to the confidentiality of the required information, Vivo Energy Kenya being a privately owned company. Secondly, one of the targeted respondents who is the Managing Director of Vivo Energy Kenya Limited was not available during the interview. The researcher however managed to meet the Supply Chain Manager and the Country Marketing Manager.

The researcher also faced significant funding constraints to facilitate her travelling to meet the respondents, purchase of stationery, printing and binding expenses, which limited the scope of the study. To mitigate that, the researcher created a budget dedicated to the project costs. Lastly, due to the demanding nature of research, collecting, interpreting and analyzing data was a time consuming task. To mitigate this challenge the researcher sought for a study leave from her employer enabling her to comfortably collect, interpret and analyze data.

## 5.6 Suggestions for Further Research

The recent development in the energy sector in Kenya especially after discovery of oil prompts the need for further research of all oil marketing companies as well as companies in the upstream industry. This is because all oil companies, size notwithstanding, contribute immensely to the performance of the entire industry and the economy as a whole. This study would help to determine if both big and small companies can actually employ similar strategies and to what extent. A comparative study can also be carried out to establish value chain management strategies adopted by firms in other industries other than the energy sector and the benefits derived from these strategies. This would assist in comparing the level of supply chain management performance with other firms and thus concrete facts and reliable conclusions can henceforth be drawn.

Further research can be done to establish value chain management best practices that highly influence competitive advantage and value addition in Kenya and/or East Africa region. The various challenges faced by oil firms in implementation of these practices in order to enlighten the Kenya oil marketing firms to improve their way of doing business by ensuring they attain a competitive edge locally with prospects of doing well globally.

Future researcher should carry out further research in oil companies in the East Africa region that are similar in terms of size and areas of operation. This could include grouping the oil marketing companies into the top five in size or those who operate in the local market only or those who operate in export market only. Findings can then be drawn to determine if there are areas of commonalities or unique factors.

## 5.7 Implication of the Study

The downstream petroleum industry in Kenya is characterized by price controls, thin product margins, ever changing petroleum and tax laws and regulations which make it unconducive for businesses in the sector. A strategic plan is the best thing that a company, size notwithstanding, can undertake in today's dynamic and competitive business environment.

This study would be of help to petroleum companies' top management and other levels of management in understanding the company and the industry they operate in. This is because strategic decisions they take every day affect go a long way in balancing customer satisfaction with quality products at competitive prices. The way a company manages its value chain highly affects its overall performance. Some strategies that Vivo Energy Kenya Limited had taken like hiring the best talent of qualified employees, opening convenience stores, collaboration with suppliers and service providers in an effort to ensure the products are delivered to customers in a timely manner are very crucial in a company's value chain. Since the study found out that all strategic decisions made throughout the organization affect the value chain in one way or the other, It would therefore be important for decision makers to make sound and meaningful decisions in order to maximize the company's performance.

The findings of this study would be useful to policy makers like the Energy Regulation Commission and the Ministry of Energy and Petroleum in their day to day policy formulation and implementation. The fact that with increased market share an organization may become a threat to competition which may result to imbalanced trade in the industry, the Energy Regulation Commission would use the research findings in

determining the size and standards of retail stations that an oil marketing company can construct. This would ensure a fair play in the industry which is already very competitive. The research findings would help in improving the Open Tender System process to ensure companies who bid and win tenders to import fuel have the capacity to do so to avoid any delays in the supply chain.

This study would be helpful to scholars and researchers in helping them understand the influence that various strategies adopted by organizations to their supply chain. Although this study is constrained on the downstream petroleum industry, the knowledge gathered would be useful to future researchers in their quest to establish similar relationship in other sectors and industries like the upstream and mid-stream sectors, manufacturing, construction, financial services among others. The findings of this study would be very useful in referencing future research work.

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# APPENDICES

## Appendix I: Interview Guide

This interview guide seeks to collect information on the influence of strategy on the value chain management of Vivo Energy Kenya Limited

### Part A: General Information about the Company

1. What year did Vivo Energy Kenya Limited start operating in Kenya?

   ………………………………………………………..........................................

2. What is the ownership type and structure of Vivo Energy Limited?

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3. What are core areas of activities of Vivo Energy Kenya Limited?

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   ……………………………………………………………………………………

4. On average, what is Vivo Energy Kenya Limited turnover per year in Kenya Shillings?

   …………………………………………………………………………………….

5. What was the revenue level of Vivo Energy Kenya Limited in the last 3 years in Kenya Shillings?

   Year 2015: …………………………………………………..............................

   Year 2014: …………………………………………………………………………

   Year 2013: …………………………………………………………………………

6. What was the market share of Vivo Energy Kenya Limited in the last three years?

   Year 2015: ………………………………………………………………………….

   Year 2014: …………………………………………………………………………

   Year 2013: …………………………………………………………………………

7. How many employees does Vivo Energy Kenya Limited currently have?

   ……………………………………………………………………………………

   ……………………………………………………………………………………

8. What is your title and job description in Vivo Energy Kenya Limited?

   Title: ………………………………………………………………………………

   Responsibilities:

   ……………………………………………………………………………………

   ……………………………………………………………………………………

   ……………………………………………………………………………………

   ……………………………………………………………………………………

   ……………………………………………………………………………………

**Part B: Influence of Strategy on value chain management**

9. Do you consider the size of Vivo Energy Kenya Limited an important factor in the industry supply chain?

   Yes [ ]                                   No [ ]

10. What strategies in supply chain management does Vivo Energy Kenya Limited employ to create value and competitive advantage?

    ………………………………………………………………………………………

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11. How often does Vivo Energy Kenya Limited review its value chain management strategies?

    After One Year [ ]

    After two Years [ ]

    After Three Years [ ]

    After Four Years [ ]

    After Five Years [ ]

12. Who are the key stakeholders of Vivo Energy Kenya Limited supply chain?

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13. What main reasons would you consider as a drive in the type of value chain management strategies adopted by Vivo Energy Kenya Limited in the below activities:

    a) Inbound Logistics…………………………………………………………

       …………………………………………………………………………….

    b) Operations……………………………………………………………………

       ………..…………………………………………………………………..

    c) Outbound logistics…………………………………………………………….

       ………………………………………………………………………………

    d) Marketing and Sales………………………………………………………..

       ………………………………………………………………………………

    e) Service…………………………………………………………………………

       ………………………………………………………………………………

    f) Procurement…………………………………………………………………..

       ………..…………………………………………………………………….

    g) Human resource management ……………………………………………...

       ………………………………………………………………………………

h) Technological development………………………………………………...

…………………………………………………………………………………

i) Infrastructure………………………………………………………………..

………………………………………………………………………………..

**Part C: Value Chain Management Strategies and Organization Performance**

14. Has value chain management strategies adopted contributed to the direct improvement of Vivo Energy Kenya Limited financial performance?

Yes [ ] No [ ]

Please Explain

a) Long Term…………………………………………………………………...

…………………………………………………………………………………..

b) Short term …………………………………………………………………

…………………………………………………………………………………..

.

15. How has the value chain management strategies adopted contributed to Vivo Energy Kenya Limited performance in the following:

a) Customer Satisfaction………………………………………………………..

……………………………...…………………………………………………

b) Efficiency…………………………………………………………………

……………………………………………………………………………….

c) Employee morale…………………………………………………………...

………………………………………………………..........................................

d) HSSE……………………………………………………………..…………...

………………………………………………………………………………………

16. Has the value chain management strategies adopted contributed to the increase in Vivo Energy Kenya Limited market share?

Yes [ ] No [ ]

Please Explain…………………………………………………………………

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17. Has Value chain management strategies adopted led to an improvement in the skills and technological development of Vivo Energy Kenya Limited?

Yes [ ] No [ ]

Please Explain…………………………………………………………………

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18. What challenges does Vivo Energy Kenya Limited face in day-to-day running of the supply chain management strategies?

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19. How are the challenges addressed?

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## Appendix II: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 01/07/2016

**TO WHOM IT MAY CONCERN**

The bearer of this letter CAROLINE MALINDA SOMBA

Registration No. D61/72582/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS