Determinants Of Competitive Advantage In Kenya’s Oil Marketing Sector

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BACKGROUND OF THE STUDY

- Many concepts of competitive advantage have been suggested in the economic and business literature. This is due to the fact that competitiveness, unlike comparative advantage, has not been defined rigorously in the early economic literature and after many attempts of definition, it has become a somewhat ambiguous concept (Siggel, 2007).

- According to Reeves and Deimler (2016) modern and accurate measures of competitive advantage need to be used because among other traditional performance measures, constructs like market leadership are proving to be an “increasingly dubious prize”. The once strong correlation between profitability and industry share is now almost non-existent in some sectors.

- Siggel (2007) opines that some authors use the term “competitive advantage” synonymously or in a similar way as comparative advantage and others view it as an economy-wide characteristic. Yet other authors discuss competitive advantage synonymously with performance.
The traditional market leaders in Kenya’s oil marketing sector despite having enormous infrastructure (tangible assets) have been losing their market share to companies that seemingly are not as well leveraged in terms of tangible assets. This may point to competitive advantage originating from intrinsic and unseen (intangible) resources therefore warranting the need for investigation. For example, the top three oil marketers in Kenya lost a combined 20.6% market share in the first three months of 2016 form a combined market of 71.9 per cent in 2015 and a high of combined market share of 77.9% in 2007 (Juma, 2016).

Should Kenya’s Oil Marketing sector revise its approach of viewing competitive advantage from tangible to intangible assets? Do industry practitioner really need to look at competitive advantage as an aggregate construct?
ANCHOR THEORIES

- In former years, two dominant theories of competitive advantage existed, namely: the Market-Based View (MBV) and the Resource-Based View (RBV). The concept of core competencies is closely related to the RBV view of strategy. Similarly, knowledge-based view and capability-based view of strategy have evolved from the resource-based view. (Wang, 2014). Wang (2014) further states that the resource-based view of the firm (RBV) draws attention to the firm’s internal environment as a driver for competitive advantage and emphasises the resources that firms have developed to compete in this same environment.

- Resource Based View/Theory: This is the adopted perspective that competitive advantage and performance results are a consequence of firm-specific resources and capabilities that are costly to copy by other competitors (Barney, 1996).

- The dynamic capabilities theory is the theoretical basis for this study especially considering López (2005) statement that the theory provides adequate conditions for the generation, development, and renewal of firm-specific resources and capabilities, while simultaneously allowing firms to create new products, adapt to changing external conditions and remain competitive.
REVIEW OF LITERATURE

- Nguyen (2010) states that non-traditional approach of considering intangible assets is vital for competitive advantage.

- In a 2014 study, Wambua, Namusonge, Waema and Ngonzo on Kenya’s independent petroleum dealers neither the traditional cost leadership nor differentiation were found to be applicable in asserting competitive advantage. Wambua et., al. (2014) conclude that segmentation (mass customisation) and convenience retailing (agility) are the aspects that independent petroleum dealers in Kenya use to gain superior performance for example, market share.
Contrary to Nguyen (2010) in highlighting the aspect of control of distribution channels, Livohi, (2012) underscores the importance of tangible assets and mentions that oil storage facilities in Kenya are a key component in the oil industry supply chain activities. When a firm owns its storage facility, it has greater flexibility in planning for oil product receipts and releases. Lack of storage facility means that a firm has to rent the facility (i.e. get hospitality arrangement) of another Oil Marketing Company. This ordinarily reduces the supply chain flexibility of the firm renting the facility, as the owner of the facility would determine whether and when to receive or release another firm’s products.
The literature on competitive advantage requires assessing the construct as an aggregate concept (Venaik, 2002). This study adopted the constructs of competitive advantage as discussed and operationalised by Byrd and Turner (2001); Chuang (2004); Nguyen et. al, (2009) Reeves and Deimler (2016) comprising Organisational Agility, Innovation, Barriers to Entry, Mass Customisation and Inimitability (difficulty in duplication).

- **Organizational agility**: The quality that allows an enterprise to embrace market and operational changes as a matter of routine. An agile enterprise is change-proficient, whether that change is driven by market trends or is internal and operational. It responds quickly to both threats and opportunities, and executes change in a sustainable way. Few firms are at this level, therefore making this attribute rare (Clair, 2016).

- **Innovation**: Any new product or service for the customers, or practice, structure, process, system or organisational change that creates new value or significant improvements to an organisation (Ng, 2004).
Barriers to entry: This is incumbent competitive advantage that does not favour possible new entrants (Greenwald & Kahn, 2005).

Mass customisation: Mass customization is the firm’s ability to offer products and services to a wide variety of customers and to meet changing product demands through service or through product variety without additional cost (Boynton, Victor, & Pine, 1993)

Inimitability: Uniqueness or a state of difficulty in replication or duplication of a resource due to a number of reasons including but not limited to cost (Jurevicius, 2013).

For this study, competitive advantage is the enduring and implicitly static favourable market position cleverly established as a result of assembling the right capabilities and competencies for making or delivering an offering that is better than the competition (Reeves and Deimler 2016)
PURPOSE OF THE STUDY

- To investigate factors that possibly contribute to Kenyan registered Oil Marketing Firms attaining competitive advantage
SPECIFIC OBJECTIVES

- To determine the effect that Organizational Agility has on competitive advantage
- To establish the nature of relationship that Innovativeness has with competitive advantage
- To examine the effect of Barriers to Entry on competitive advantage
- To determine the nature of the relationship that Mass Customisation has with competitive advantage
- To investigate the effect that Inimitability has on competitive advantage
JUSTIFICATION OF THE STUDY

- This study provides theoretical content and perspective into relevant competitive advantage constructs that should be considered for alignment with strategic intent in Kenya’s Oil Marketing sector
- Directors and board members
- Management
- Oil Marketing Companies operating in greater East Africa
- Investors both local and foreign
- Scholars
- Policy makers (Energy Regulatory Commission, Anti-monopolies body)
CONCEPTUAL FRAMEWORK

Organizational Agility
Innovation
Barriers to Entry
Mass Customisation
Inimitability

H2
H2
H3
H4

Competitive Advantage
METHODOLOGY

- **Research philosophy**: This study’s approach is based on positivism as it relies on experimental and non-manipulative methods. These ensure that there is a distance between the subjective biases of the researcher and the objective reality of the study.

- **Research design**: The approach taken by this study is non-contrived (non-experimental), cross-sectional design focusing on Kenya’s oil marketing sector. The data will be collected from employees of 19 petroleum companies that are listed in the Petroleum Institute of East Africa (PIEA) and that have a market share of 1% and above.

- **Target population**: The target population of senior level, middle level and low level managers and administrators for this study is drawn from 19 Oil Marketing Companies (OMC) with a regional 1% market share and above as captured by the Petroleum Institute of East Africa (PIEA).

- **Sample frame**: Sample frame is the 2015 Petroleum Institute of East Africa third quarter list of Oil Marketers’ local market shares.

- **Sampling technique**: Sampling technique was based on Yamane (1967) formulae

\[ n = \frac{N}{1+N(e)^2} \]
METHODOLOGY

- “N” (1,585) was arrived at by contacting human resource managers of the various companies, making visits to respondents and secondary sources like websites and petroleum industry publications.
- Therefore “n” for the study is 319
- Data collection: This study will rely on both primary and secondary data. Secondary data will be collected through review of existing literature including Internet access to respondent firms’ websites so as to obtain additional information on infrastructure owned (depots, retail stations etc). A survey approach will be used to obtain primary data. The tool is an adaptation of instruments used by Byrd and Turner (2001); Chuang (2004); Nguyen et. al, (2009) and Reeves and Deimler (2016).
- Validity is the extent to which a measurement approach or procedure gives the correct answer therefore allowing the researcher to measure or evaluate an objective reality (Cohen 2006).
- Reliability of the whole instrument will be measured through Cronbach’s coefficient alpha (measure of internal consistency) which will be achieved if respondents attach same overall meaning to each of the items while measuring the same concept
DATA ANALYSIS

- This study will utilize descriptive statistics to arrange and present the data.
- Data will be keyed in, coded for use with appropriate Statistical Packages. The data will be cleaned so as to remove any third party errors before data entry. Secondary data cleaning will be done to check for possibility of researcher data keying-in errors before starting the data analysis process.
- To test the hypothesised relationships between the independent and dependent variable, the study intends to use inferential statistics. Factor analysis will be used as one way of analysing the data quantitatively.
- The study will also test the hypotheses by carrying out ordinary least squares analysis which is simple regression to establish the line of “best fit.”