STRATEGIC RESPONSE TO A DYNAMIC ECONOMIC ENVIRONMENT BY MULTINATIONAL OIL COMPANIES IN KENYA: A CASE OF LIBYA OIL COMPANY LIMITED

BY

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A Research project submitted to the Chandaria School of Business in Partial Fulfillment of the requirements for the Degree of Masters in Business Administration (MBA)

SPRING, 2012
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

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Date: 23rd MARCH 2012

This project has been presented for examination with my approval as the appointed supervisor.

Signed: Dr. Paul Katuse
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Signed: Dean, School of Business
Date: 27/03/2012

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Date: 03/05/2012
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ABSTRACT

The purpose of this study was to establish the strategic response to a dynamic economic environment by multinational oil companies in Kenya. In order to achieve these, the study focused on the following research questions: What are the various challenges faced by oil companies in a dynamic economic environment? Which are the various internal and external organizational capabilities relevant in a dynamic economic environment? What strategies are used by oil companies to develop sustainable competitive advantage?

To achieve this, the study adopted a descriptive study of Libya Oil Company in Kenya. The population of study comprised of employees of Libya Oil Company in Kenya. The study engaged 51 respondents involved in the core business of the company and who were identified through stratified sampling. Data collection was conducted through the use of questionnaires and analyzed through descriptive statistics in order to draw conclusions. The collected data was first coded statistically and thereafter analyzed with the use of a statistical package: SPSS in percentages and frequencies. Thereafter the results were presented via graphs, charts, tables as well as pie charts.

Looking at the study findings it was revealed that the strategies mostly used by oil marketing companies in the Kenya were domestic strategies and multi-domestic strategies. The findings on the strategic response by oil marketing companies to a dynamic economic environment in Kenya revealed that focus market joint ventures strategic alliances as well as corporate diversification stood out as the popular strategies used by oil marketing companies in a dynamic economic environment. The other strategies although used by the oil marketing companies, they are not very popular. The findings also revealed that a combination of strategic alliances and joint ventures was the best suitable strategic response techniques in a dynamic economic environment in Kenya. In light of these findings the study concluded that
The majority of oil marketing companies are either regional or locally owned, most of these companies apply domestic or multi domestic Strategies. It is clear from the research that global strategies are not suitable for the oil market in Kenya. Similarly it can be concluded that a combination of strategic alliances and joint ventures was the best suitable in a dynamic economic environment. The study therefore recommends that blending of strategic response that are best suited for the market dynamics and in the case three levels are recommended; when going for strategic alliances, companies should consider combining this with either joint venture in operations as this provides a platform for cost reduction due to economies of scale, while when a company is considering corporate diversification, it recommended to combine this with mergers and acquisitions as this provide a faster and established approach to market diversification as compared to starting from scratch.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In a broad sense the environment is infinite and includes everything around the organization. However, there are aspects of the environment to which the organization is sensitive and must respond to survive. The external environment comprises factors that originate beyond, and are usually irrespective of, any single firms operating function. That environment present firms with opportunities, threats and constraints (Pearce and Robinson, 2005).

Various environmental factors such as economic environment, socio-cultural environment, political, technological, demographic and international, affect the business and its working. Economic factors concern the nature and direction of the economy in which a firm operates. Economic factors include availability of credit, level of disposal income, interest rates, inflations rates, trends in growth of gross national product and the propensity of people to spend. Economic factors have direct impact on the potential attractiveness of various strategies (David, 2005). Kotler and Armstrong (1999) describe forces at work in external environment as dynamic. The oil industry in Kenya's economic environment can simply be described as dynamic and turbulent. Therefore, this paper builds on existing literature to develop a thorough understanding of dynamic environments and successful patterns of strategic response actions applied by multinational oil companies in Kenya in this dynamic environment, and based on this understanding; an analysis framework is developed to analyze several strategic response tools.

Kenya's economy is more developed than those of other developing countries in the sub-Saharan Africa. The country's economic history is more stable than the histories of many emerging economies, lacking very severe bouts of inflation, banking sector collapse or major crises that harm public confidence in financial institutions. The most significant historical crisis took place in the late 1980s and early 1990s, when Kenya experienced a bout of high inflation, loss of control of the money supply, and the failure and/or distress of several banks and non-bank financial intermediaries. Despite this auspicious structural environment, credit is a low percentage of GDP and the ratio has remained relatively
stagnant in recent years (Steadman, 2007). From independence to the late 1980s, the Government intervened significantly in the financial sector, through both regulation and direct participation in markets. Commercial banks, constituting the largest part of the financial sector, were subject to interest rate controls, required to lend minimum proportions of their portfolio to the agricultural sector as well as open rural branches in strict proportion to those opened in urban areas. Policy directed lending to priority sectors including agriculture, tourism, industry and small enterprise, was routed through state owned commercial banks and development finance institutions. During this period, the overall policy thrust was strongly oriented towards increasing access to finance by emergent Kenyan business, which a foreign bank dominated system was felt to serve poorly. Reflecting economic development thinking at the time, this policy emphasized access by the formal economy. By contrast the livelihoods of most Kenyans were dependent and continue to depend on the informal economy. Policy therefore effectively gave rather less attention to the broader issue of financial inclusion.

The 1990's became a period of major economic reforms in Kenya under the auspices of the IMF/WB. As a part of financial sector liberalization, interest rates and exchange controls were removed. However in the context of an already poorly performing economy, lack of discipline in macro-economic management and a weak banking system, the move to liberalize financial markets produced disappointing results. The macro-economic crisis of the mid-nineties produced a spike in interest rates which pushed many businesses into difficulties and generated a large non-performing portfolio which persisted into the following decade. Subjected to political direction, the state owned and influenced financial institutions performed especially badly. A lack of real commitment to the liberalization programme resulted in only partial privatization of the state-owned banks and reform of the development finance institutions was deferred. Reflecting a growing emphasis in the banking industry on improving cost structures, there was a contraction in branch networks in the less profitable rural areas and the minimum account operating requirements were raised. While accurate data is unavailable for this period, there was thought to be a significant contraction in access as a consequence. During 2000-2001, the credit to private sector fell by 6.11 % (KNBS, 2002). Closely linked to the perceived abandonment of lower income markets by commercial banks, this period saw the emergence of Savings and Credit Co-
operatives (SACCOs). Kenya’s credit union movement and Micro finance institutions, seeking to fill the gap.

In the below Table 1.1, it is evident that the monetary policy environment was generally unstable in Kenya from 2001 to 2010. Following the liberalization of the economy, financial disintermediation, rather than deepening occurred. In 2001 domestic credit fell overall by 6.11% even though claims on the private sector rose and that on central government fell. This contrasts with the early 1990’s when a large share of domestic credit went to central government (WB. 1995, 1999). The inflation rate increase in 2009 of 26.2% was due to poor food crop harvests caused by prolonged drought in most parts of the country. In effect the 1990’s became the true period of reforms in Kenya designed as it were to remove market rigidities in the economy in general and financial sector in particular (KNBS, 2002). The financial sector adjustment program (FSAPs) was introduced whereby the sector became deregulated and the growth of financial institutions facilitated. The foreign exchange market was also liberalized and guidelines for indirect monetary policy laid down. The Central Bank of Kenya in addition to selling treasury bills and conduction monetary policy was granted greater supervisory powers over commercial financial institutions (CBK, 2009).

**Table 1.1: Summary of characteristics of macroeconomic variables**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation rate %</th>
<th>Change in domestic credit</th>
<th>Broad money to GDP ratio %</th>
<th>Treasury bill rate %</th>
<th>Leading rate %</th>
<th>Deposit rate %</th>
<th>Change in exchange rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>6.2</td>
<td>-6.11</td>
<td>4.37</td>
<td>11.01</td>
<td>19.49</td>
<td>5.7</td>
<td>0.72</td>
</tr>
<tr>
<td>2002</td>
<td>5.8</td>
<td>6.27</td>
<td>4.47</td>
<td>8.36</td>
<td>18.34</td>
<td>4.75</td>
<td>-1.94</td>
</tr>
<tr>
<td>2003</td>
<td>2</td>
<td>4.87</td>
<td>4.92</td>
<td>1.46</td>
<td>13.47</td>
<td>3.29</td>
<td>-1.21</td>
</tr>
<tr>
<td>2004</td>
<td>9.8</td>
<td>21.72</td>
<td>5.42</td>
<td>8.04</td>
<td>12.25</td>
<td>2.77</td>
<td>1.58</td>
</tr>
<tr>
<td>2005</td>
<td>11.6</td>
<td>8.09</td>
<td>5.74</td>
<td>8.07</td>
<td>13.16</td>
<td>4.52</td>
<td>-6.44</td>
</tr>
<tr>
<td>2006</td>
<td>10.3</td>
<td>12.12</td>
<td>6.22</td>
<td>5.73</td>
<td>13.74</td>
<td>4.11</td>
<td>-4.1</td>
</tr>
<tr>
<td>2007</td>
<td>14.5</td>
<td>16.26</td>
<td>6.82</td>
<td>6.87</td>
<td>13.32</td>
<td>4.32</td>
<td>-9.69</td>
</tr>
<tr>
<td>2009</td>
<td>26.2</td>
<td>5.23</td>
<td>8.49</td>
<td>6.82</td>
<td>14.76</td>
<td>4.84</td>
<td>-2.35</td>
</tr>
<tr>
<td>2010</td>
<td>9.2</td>
<td>-</td>
<td>10.19</td>
<td>2.78</td>
<td>13.87</td>
<td>3.59</td>
<td>-</td>
</tr>
</tbody>
</table>

**Source:** Kenya National Bureau of Statistics statistical abstracts and Central Bank of Kenya 2010
A host of external factors influence a firm's choice of direction and action. These factors constitute the external environment (Pearce, and Robinson, 2005). Ansoff and McDonnell (1990), state that the environment in which organizations operate in can be either relatively stable or turbulent. According to Burns and Stalker (1961), when businesses see their environment as turbulent and complex they respond to align with the environment. According to Pearce and Robinson (1991), strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the organization's environment.

Academicians and practitioners are in agreement that change is a constant feature of organizational life (Burnes, 2004; Causon, 2004; Staniforth, 1996), and therefore organizations must learn how to timely respond to the changes by adjusting their strategy. Strategic Response has thus became a primary concern for business managers, especially at that time in history when competitors gained sufficient market power to be capable of affecting the prospects of their rivals, which, for the most part, occurred well within the twentieth century. The field has moved beyond defining strategy as a formal plan (Mintzberg, 1994). The essence of strategy is not the structure of a company's products and markets but the dynamics of its behavior (Stalk, et. al., 1992). According to Barney and Hesterly (2008), Strategy is a theory about how to gain competitive advantages. Either formally or informally, organizations thus develop strategies that often times dictate a change in an organization's status quo (Kinuu, 2007).

The oil industry began over five thousand years ago. In the Middle East, oil seeping up through the ground was used in waterproofing boats and baskets, in paints, lighting and even for medication. Whale oil has been used in more recent times as a source of light. However, the high premium for whale oil decimated whale populations and as their numbers dropped the prices rose further. The demand for oil was then far higher than the supply. Many companies and individuals were looking for an alternative and longer lasting source of what would later become known as black gold. Apart from a brief period of coal oil, the answer came with the development of drilling for crude oil. Land oil wells were first and as demand
continued to grow exploration companies began to look below the sea bed. The first oil well structures to be built in open waters were in the Gulf of Mexico.

Kenya has no known oil or gas reserves. The Kenyan government is encouraging foreign interest in oil exploration and there is a modest upstream oil industry. Companies like Africa Oil and Tull-ow Oil are working on some sites in Northern Kenya but so far none has borne fruit. Petroleum is Kenya's major source of commercial energy and has, over the years, accounted for about 80% of the country's commercial energy requirements. Demand for oil in Kenya is quite small in global standards but the highest in East Africa making it a key market in the region for oil Products. The domestic demand for various petroleum fuels on average stands at 2.5 million tons per year, all of it imported from the gulf region, either as crude oil for processing at the Kenya Petroleum Refineries Limited or as refined petroleum products. Prior to liberalization in 1994, Kenyan government was well involved in the sector especially on controlling pricing. Mostly multinational corporations participated with correspondingly low level of local company's involvement. Since liberalization, many new companies have been licensed by the government to engage in petroleum trading, especially import and export, wholesale and retail of petroleum products.

The Kenya Petroleum Refineries Limited which is partly owned by government at and Essar of India on 50% basis supplies 50% of local oil requirements with a mandatory processing by all marketing companies basis market share. The rest is imported as fully refined through an Open Tender System (OTS) supervised by ministry on energy. However the refinery was last upgraded in 1972 and is currently facing a number of constraints including reliability and efficiency due to aging infrastructure. Kenya Pipeline Company Limited which is wholly owned by the government offers primary transported of refined products to Nairobi and western Kenya. However it has not been properly upgraded since its inception in 1979 and is currently facing capacity constraints due to growing oil demand in the region. This has resulted in use of rail wagons and road trucks which are expensive and inefficient. National Oil Corporation of Kenya limited was incorporated in 1981 under the Companies Act (Cap 486) with main objective then to coordinate oil exploration (upstream) activities. In 1988 the company was mandated on behalf of the government to supply 30% of the country's crude oil to help stabilize local oil prices.
The oil industry in Kenya has faced many changes in the last two decades. Liberalization in 1994, introduction stringent tax regimes in 2005 by the Kenya Revenue Authority requiring upfront prepayment of taxes on oil imports and lately in December 2010, the government following pressure from public and politicians to control rising fuel prices re-introduced limited prices controls by capping the maximum fuel prices. This meant that companies can sell below but not above the maximum price generated using a set formula. The prices were to be revised monthly based on cost of fuel imported for the month. This has already interfered with the market mechanisms that have been determining price and overall profitability of oil companies.

Kenya has fifty registered oil marketers according to the petroleum institute of East Africa (2011). Among these, there are multinational companies as well as domestic firms. Multinational oil companies in Kenya, have the majority market share according to the recent statistics provided by the petroleum institute of East Africa (2011).

Multinational oil companies in Kenya that apply geocentric strategies include, Total Kenya Limited, Kenya Shell, Libya Oil, Kenol Kobil and Engen Kenya Limited. These companies operate in all sectors of oil marketing in Kenya including Supply trading, Wholesale and Retail Marketing and Export. Smaller Emerging Multinationals which are mainly in Supply trading and wholesale business with less than 10% Market Share apply Multi-Domestic Strategy. According to Petroleum Institute of East Africa Data, in 2010 Major Multinational companies comprising of Total, Kenya Shell, KenolKobil, Libya Oil Kenya and Engen Kenya had a combined market share of 75.9%.

Total Kenya Limited is part of the Total Group, and is currently the leading oil marketer in Kenya. In 2009, Total Kenya Limited acquired Caltex business making it the largest in market share of 27.6%. Total has been operating in Kenya since its incorporation in 1955 as OZO East Africa Ltd. It began operations as Total Oil Products (E.A) Ltd. In 1991, the company name changed to Total Kenya Limited. It is the only subsidiary of a multinational petroleum company whose shares are quoted on the Nairobi Stock Exchange.

Kenya Shell is also a leading oil brand in Kenya and currently the second largest Oil Company in the world and has a wide network of retail service stations, major terminals in
Nairobi and Mombasa, aviation services in all major airports, and a lubricating oil blending plant in Mombasa. Shell Kenya currently serves various markets including retail, lubricants, aviation, liquefied petroleum gas (LPG) and bitumen. It started its activities in Kenya in 1900 selling illuminating Kerosene in Mombasa and is the Oldest Multinational oil Company in Kenya. Engen Kenya Ltd (EKL) began operating in 1993 as a representative office for Engen Ltd, assisting with bulk product sales. In 1999 the company expanded into retail, opening its first site in Nyali, Mombasa. EKL also operates in the commercial sector selling fuels and lubricants across the country, while also exporting fuels and lubricants to other customers in East Africa. Bitumen is sold through Oil Tanking (EPZ) Ltd, which is located in Mombasa.

Under the brand name ‘Oilibya’, LOKL acquired assets and operations of Mobil Oil Kenya in 2006 and currently operates over 60 Retail Stations country wide through a dealer network. It operates a lubricant blending plant in Mombasa, terminals in Nairobi, Mombasa and Eldoret and has a presence at the Kenya Pipeline Company (KPC) depots in Western Kenya. It also operates its aviation business through the two main airports in Kenya. LOKL has also partnered with Innscor (K) Limited to provide a comprehensive back-court offering that includes quality food brands and convenience retailing stores.

KenolKobil Kenya Limited is a Kenyan company that has recently acquired business in other countries especially in East and central Africa with its head office in Nairobi. In 2010, it ranked 2nd to Total Kenya Limited in terms of sales with 17.9% market share (Petroleum Institute of East Africa data, 2010). The name KenolKobil was acquired in December 2007 when, Kenol acquired the entire issued share capital of Kobil and as a result Kobil became a wholly owned subsidiary of Kenol. Kenol was founded incorporated as a Private Limited Company in Kenya on 13 May 1959. The company started its operations as a wholesaler selling packaged Kerosene, by the brand name “SAFI”. Kobil Petroleum Limited was founded in 1984 by acquiring shares of the then Mobil Oil Kenya Limited. In January 1986, Kenol and Kobil Petroleum Limited (“Kobil”) entered into a joint operations and management agreement. As of December 19 2007, Kobil petroleum became a subsidiary of Kenya Oil Company Limited (Kenol). The company markets white oils and black oils, lubricants, liquefied Petroleum gas and other petroleum based products across the country.
1.2 Statement of the Problem

"The reason why firms succeed or fail is perhaps the central question in strategy" stated Porter (1991). As recently as 10 years ago, people thought they knew most of what they needed to know about strategy. Portfolio planning, the experience curve, Michael E. Porter's five forces—tools like these brought rigor and legitimacy to strategy at both the business unit and the corporate level (Collis and Montgomery, 2008). These traditional strategy approaches can soundly answer this central question in stable environments, however these approaches are not directly applicable to dynamic environments and there is currently no final and complete answer that determines the causes for a company's failure or success with their strategies in dynamic environments (Mathieu, and Schilke, 2007). In this regard therefore, the strategic responses of firms in addressing changes in the dynamic environment, is key to achieving competitive advantage and therefore ultimate survival.

In Kenya studies on the relationship between strategic responses to the external environment have been done. Mbogo (2007) did a survey of strategic responses of firms to environmental changes in Kenya: a case of the Nairobi City Council (NCC). In his study he found that so far none of strategic response actions taken by NCC included restructuring and performance contracting. These basically were to address efficiency at NCC. Sheilla (2008) studied strategic responses by the Barclays bank of Kenya to changes in the environment and equally picked up issues around efficiency (Cost Leadership), where the bank ended up restructuring besides changes in technology, recapitalization product differentiation strategies. Similar strategic response actions were echoed by Karanja (2008) “Strategic Responses by Mobile Phone Companies in Kenya to Environmental Changes” and Kashero (2008) “Strategic Responses to Changing Environment at Lloyd Masika”. However Odongo (2008) “Strategic Response by Kenya Tourism Development Corporation (KTDC) to change in its environment” found that for government instructions like, Political interference, poor funding and bad management were main areas the corporation needed to address. However there has been limited focus on oil market in Kenya. Additionally there has been no prior empirical research that has explicitly investigated multinational Oil companies’ Strategic response to dynamic economic environment in the oil Industry in Kenya.
The external environment in which oil Companies in Kenya are operating has been very dynamic. Because consumption patterns are affected by the relative affluence of various markets segments, each firm must consider economic trends in the segments that affect its industry (Pearce and Robnson, 2005). Due to its unique and complex nature of the oil industry in Kenya, strategic response actions gained from these studies may not adequately address its specific industry strategic responses. Whereas it cannot be conclusively said, these rapid changes have an impact in recent exits by large multinationals (Kinuu, 2007). In the last decade alone three multinational companies have left. Mobil in 2006, BP in 2007 and Chevron in 2010. Shell which took over BP assets in Kenya, has already sold a joint stake with BP in Mombasa-based Kenya petroleum refineries to India multinational, Essar. In April 2010 Shell announced its intentions to leave Africa, including Kenya and its currently moving into a minority shareholding with Vittol and Hellios. This study therefore explores strategic responses of multinational oil companies to changing economic environment in Kenya. When faced with all these changes one question that comes in mind is are multinational oil companies responding well to this dynamic economic environment.

Competing in volatile markets can feel a lot like entering the ring against George Foreman in his prime or, even worse, like stumbling into a barroom brawl. The punches come from all directions, include a steady barrage of body blows and periodic haymakers, and are thrown by a rotating cast of characters who swing bottles and bar stools as well as fists. (Sull, 2009). A firm’s strategy is almost always a theory. It’s a firms best bet about how competition is going to evolve (Barney and Hesterlky, 2008). Because consumption patterns are affected by the relative affluence of various markets segments, each firm must consider economic trends in the segments that affect its industry (Pearce and Robnson, 2005).

Firms at times adopt these strategies to gain competitive advantage and end up failing as they are not specific strategic response actions to issues affecting their environment. The researchers believe and look to identify specific response strategies that fit the kind of market that oil industry in Kenya. Whereas it cannot be conclusively said, these rapid changes have an impact in recent exits by large multinationals (Kinuu, 2007). The study is
therefore expected to bridge the gap on use of generic strategies and unique market specific response strategies.

1.3 Purpose of the Study

The study sought to identify and document the strategic responses adopted by multinational oil companies towards the dynamic economic environment in Kenya.

1.4 Research Questions

1.4.2 What are the challenges that oil companies in Kenya face in the changing economic environment?

1.4.2 What are the internal and external organizational capabilities, relevant in a dynamic economic environment?

1.4.3 What strategies are used by oil companies to develop sustainable competitive advantage?

1.5 Significance of the Study

1.5.1 Oil Industry

The findings of this research will be vital to any potential players wishing to enter the oil industry as well as the current players in the oil industry as it will provide information on how to remain competitive across a time horizon.

1.5.2 Oil Firms

The research will create awareness on the available effective strategies for creating overall sustained competitive advantage rather than short term that is easily outgrown by competitors.

1.5.3 Researchers

The research will create new knowledge in the field and open new avenues for further research and problem solution.
1.6 Scope of the Study

This research was limited to the organization of study which is Libya Oil Limited and the subjects of study limited to employees currently based at the headquarters in Nairobi as the physical disparity of other branches across the country may not allow timely and adequate study of all the employees. The research was carried out in 2012 and was limited to the events and issues as at the year of study.

1.7 Definition of Terms

1.7.1 Isolation Mechanisms: economic forces that limit the extent to which a competitive advantage can be duplicated or neutralized through the resource-creation of other firms (Rumelt, 1984)

1.7.2 Competitive Advantage: anything that favorably distinguishes a firm, its products or services, from those of its competitors in the eyes of its customers or end users in such a way that the customer chooses to purchase that product or service over another (Carr and Snyder, 1997).

1.7.3 Sustainable: being characterized by durability (rate at which a firm’s underlying resources, capabilities or core competencies can depreciate or become obsolete) and imitability (rate at which a firm’s underlying resources, capabilities can be duplicated) (Hungler and Wheelen, 2007).

1.7.4 Industry: group of firms producing a similar product or service (Hungler and Wheelen, 2007).

1.7.5 Strategic Management: the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, 2009).

1.8 Chapter Summary

This chapter has presented a general introduction to the background of the study, the purpose of the study, problem statement, and importance of the study as well as the definition of terms. The study was conducted through three research questions seeking to
determine strategies for sustained advantage, the organizational capabilities and the external factors that contribute to the advantage in a dynamic economic environment. The research is aimed at benefitting oil companies, researchers and the oil industry. It was limited to employees of Libya Oil limited located in Nairobi and the study will be carried out in the course of the year 2012. The next sub-section provides the review of the literature with regards to the research objectives. The third chapter covers the research methodology while the fourth chapter provides the research findings. The final chapter gives a summary and discussion of the findings as well as the conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The materials are drawn from several sources which are closely related to the theme and the objectives of the study. The main areas discussed are: the theory and concept of strategic response, organization and their external environment and the strategies in facing the dynamic environment.

2.2 Challenges Faced by Multinational Oil Companies in Changing Economic Environment in Kenya

There may be no other industry today that demands a more diverse set of human, political, mechanical and technological capabilities than the oil and gas exploration and production industry. Competition for natural resources has driven companies to explore and produce in harsh, remote and even hostile locations, where even the simplest of logistical tasks can be difficult and costly, and, as the environment grows more diverse and unforgiving and the challenges more complex, skilled human resources are aging and growing scarce. Intelligent surveillance, utilizing down hole sensors to monitor wells, is key to moving the industry forward. But to be effective, new processes, roles and responsibilities must be determined, and personnel must be trained. Today, many field workers operate independently in remote oil and gas fields. Centralized monitoring of wells will require oversight and procedural changes that may be difficult to institute (Akan, et al., 2006). As Such the following challenges are likely to face multinational oil companies.

2.2.1 Change

Rapid change pervades all aspects of operations in global markets as well as the context in which they take place. Not only are the rates of technological evolution, knowledge obsolescence and the intensity of competition increasing at an alarming pace in many industries, but unforeseen events are dramatically changing the political and economic
context in which markets develop and strategies are formulated. Technological change renders product development, production processes, and experience rapidly obsolete and contributes to escalating investment costs as well as heightened competitive pressures. In the notebook segment of the personal computer industry, for example, the cycle of new model introduction has shrunk to less than three months, rendering models rapidly obsolete and requiring constant vigilance to new product development and attention to keeping ahead of the competition (Allen, et al., 2006).

The rapid pace of change is further complicated by its increasingly discontinuous nature. Until the late 80's, change was somewhat predictable and linear in nature. Today, established models for predicting change no longer work in many instances due to the discontinuity of change. At one time, market trends and growth in a developing country could be predicted on the basis of trends in more advanced countries ten years earlier. For example, development of telecommunications networks within a country progressed slowly and required massive investment in wires and cables to connect customers. Today's cellular technology makes it possible for a country to quickly develop a modern telecommunications system and "leap frog" the wire stage (Koo, et al., 2004).

At the same time, as customers become more mobile and are exposed to new ideas and patterns of behavior through the new global media, the diffusion of new products and innovation takes place more rapidly. Rather than first being adopted by opinion leaders and then trickling down to other members of society, innovations are now spreading horizontally across countries and societies. No sooner does a new trend or fashion emerge in one country than it spreads rapidly to another. Not only are global marketers agents of change in introducing new and innovative products and services to other countries, but in addition, they must respond to the rapid pace at which societies are changing and market trends evolving (Sterling, 2003). While the pace of change is accelerating, pushed by the engine of technology and global communication, it is becoming increasingly uncertain and unpredictable-occurring in unexpected ways from unexpected sources. Industries such as defense, which fed on the desire to maintain the geo-political balance, declined, triggering the realignment of related and tributary industries such as aerospace, electronics, and
vehicles. A new economic order thus appears to be emerging, characterized by new players and new and more diverse patterns of trade. Yet, all these changing patterns appear fraught with uncertainty, as a surge in one direction is countered by a pull in another. A new instability has crept into world markets, threatening at any moment to tilt the precarious balance of economic forces. Moves toward world economic growth, regional integration or the empowerment of Third World nations, can without warning be thwarted by pressures to retreat behind the bulwark of economic nationalism (Tang and Pam, 2005).

2.2.2 Complexity
A second challenge arises from the increasing complexity of managing international operations. Technological advances, on the one hand, enable management to direct, coordinate, and control operations on a much broader and diverse geographic scale and scope than previously possible. Yet at the same time, such advances add further complexity, as management has to master the tools and skills required to handle the burgeoning international infrastructure. As the geographic scope and scale of operations extends further and further, management is faced with the task of directing and controlling diverse and far-flung activities at various stages in the value chain, often in widely divergent environmental contexts. Additional layers of organization begin to creep into the corporate infrastructure and further complicate the global management task. With trends toward regional market integration, management systems are established to direct and coordinate market operations within a region, and to provide an intermediate link between corporate headquarters and local management (Allen, et al., 2006). At the same time, organizational links between functions in each stage of the value chain are added at a global level to ensure the transfer of ideas, information and experience across geographic areas and to exploit potential synergies worldwide. Similarly, as customer markets become more dispersed, establishment of linkages with customers and suppliers becomes increasing critical in order to coordinate supplying and servicing these markets rapidly and efficiently, and to compete effectively in global markets.

Sometimes links are established with other organizations, in some cases competitors, to exploit newly emerging opportunities in specific product markets or parts of the world.
Strategic alliances may be formed with firms to provide desired geographic market coverage, or skills and resources needed to implement a given strategy. In other cases, temporary networks are formed by far-flung partners (suppliers, customers, and competitors) sharing costs, skills, access, and operations in global markets through electronic links, utilizing the latest information technology, to take advantage of a specific market opportunity. These networks are fluid and flexible, evolving in response to changing market conditions. Once an opportunity is met, or disappears, so the network will disband. Spatial market patterns are also becoming increasingly complex, once the configuration of markets was predominant national in character, surrounded by seemingly impenetrable boundaries. However, the gradual breaking down of such boundaries in many parts of the world, means that markets previously viewed as separated and independent are becoming linked and beginning to function as one (Smith, 2006).

2.2.3 Competition
Increasing intensity of competition in global markets constitutes yet another challenge facing companies at all stages of involvement in international markets. As markets open up, and become more integrated, the pace of change accelerates, technology shrinks distances between markets and reduces the scale advantages of large firms, new sources of competition emerge, and competitive pressures mount at all levels of the organization. As more and more firms venture into global markets, competition proliferates, posing new threats and dangers to be reckoned with. In addition to facing competition from well-established multinationals and from domestic firms entrenched in their respective product or service markets, firms face growing competition from firms in newly industrializing countries and previously protected markets in the Third World, as well as emerging global networks or coalitions of organizations of diverse national origins (David, 2009).

Companies which previously focused on protected domestic markets are entering into markets in other countries, creating new sources of competition, often targeted to price-sensitive market segments. At the same time, spurred by new advances in communications technology and rapid obsolescence, the speed of competitor response is accelerating. No longer does a pioneer in global markets enjoy a substantial lead time over competitors.
Nimble competitors, benefiting from lower overhead and operating costs, enter rapidly with clones or low-cost substitutes, and take advantage of the pioneer's investment in research and development and product development. Modern communications and information technology also encourage rapid competitor response to price changes, or new distribution and promotional tactics, and further heighten the pace of competition (Hrebiniak, 2005).

2.2.4 Conscience

The fourth challenge relates to the firm's moral and social responsibilities in the global marketplace. A host of such responsibilities can be identified, covering a broader spectrum of social and corporate issues. Environmental issues, for example, have emerged as a key theme in the 90's. Companies have become increasingly aware of the need to take measures to limit destruction of the environment. These include measures to limit pollution of the atmosphere through the emission of gases and other toxic substances, to conserve resources such as paper and plastic, whose production results in environmental destruction, and to produce and design products and packaging which are environmentally friendly. Such measures need to cover all aspects of the firm's activities from research and development and production to marketing and service, as well as its operations in all parts of the world. Production should be engineered so as to conserve resources and limit toxic waste. Products should be designed to be free of environmentally harmful substances, such as phosphates and fluorocarbons. Use of recyclable packaging and refillable containers also helps reduce environmental pollution (Koo, 2004).

Another area of social responsibility of particular relevance in international markets is concern with customer education and general well-being. This is often an important issue in marketing in Third World countries, where disadvantaged or poorly educated consumers are less able to judge the merits of a product or service or understand how to use it. Attention to the potential of promotional material or product information to mislead customers is important. While customers in industrialized nations are accustomed to puffery or exaggerated product claims, and are typically highly skeptical of manufacturer-originated material, customers in developing countries are often less well-equipped or less likely to screen such material. Ability to read or understand usage instructions is another issue
requiring attention. Hiring support staff to explain appropriate usage and educate consumers is often an effective approach (Allen, et al., 2006).

Product safety standards should also meet the most exacting international standards, even in countries where no such regulation exists. This is especially critical in the case of products such as pharmaceuticals, where substantial health risks are present. Firms must take the responsibility to provide accurate information to the industry and regulatory bodies, and to educate consumers and distributors to ensure appropriate usage (Roy, 1994).

2.3 Internal and External Organizational Capabilities Relevant in a Dynamic Economic Environment

2.3.1 Market Conditions

According to Lynch (2000) market growth rate is important because markets that are growing rapidly offer more opportunities for sales than lower growth markets. Rapid growth is less likely to involve stealing share from competition and more likely to come from new buyers entering the market. Porter (1998) claims that recognizing and accurately reading market signals is of major significance for developing competitive strategy and reading signals from behavior is an essential supplement to competitor analysis. A prerequisite to interpreting signals accurately is to develop a baseline competitor analysis; an understanding of competitors’ future goals, assumptions about the market and themselves, current strategies and capabilities. It is not uncommon for competitors to comment on industry conditions, including forecasts of demand and prices, forecasts of future capacity and the significance of external changes. Such commentary is laden with signals because it may expose the commenting firm’s assumptions about the industry on which it is presumably building its own strategy.

An emerging industry is typically characterized by much uncertainty over potential market size, how much time and money will be needed to surmount technological problems and what distribution channels and buyer segments to emphasize. When firms are successful in
introducing new ways of marketing their products, they spark a burst of buyer interest, widen industry demand, increase product differentiation and lower unit costs—all of which can alternative the competitive position of a firm (Thompson Jr, Strickland and Gamble, 2005)

2.3.2 First Mover Advantage

Early movers are able to preempt resources of various types including: superior positions in geographical space, technological space, or customer perceptual space. Pioneers may be able to expand and defend their position by blocking product space with a broadening product line. Preemption of superior human resources is also possible if the organization can retain existing employees (Lieberman and Montgomery, 1998). Being first to initiate a strategic move can have a high payoff in terms of strengthening a company’s market position and competitiveness when: pioneering helps build a firm’s image and reputation with buyers; early commitments to new technologies, new-style components and distribution channels can produce an absolute cost advantage over rivals; first-time consumers remain strongly loyal to pioneering firms in making repeat purchases and moving first constitutes a preemptive strike, making imitation extra hard or unlikely (Thompson Jr, Strickland and Gamble, 2005).

Thompson Jr et.al adds that a first mover also needs to be a fast learner (to sustain advantage of being a pioneer) and it helps immensely if the first-mover has deep financial pockets, important competencies and competitive capabilities, and high-quality management. Just being a first-mover by itself is seldom enough to yield competitive advantage. The proper target in timing a strategic move is not that of being the first company to do something but rather that of being the first competitor to put together the precise combination of features, customer value and sound revenue-cost profit economics that gives it an edge over rivals in the battle for market leadership.

Being a fast follower or even a wait-and-see late-mover doesn’t always carry a significant or lasting competitive penalty. There are times when a first mover’s skills, know-how and
actions are copied or even surpassed, allowing late-movers to catch or overtake the first-mover in a relatively short period. There are also times when there are actually advantages of being an adept follower rather than a first-mover. Late-mover advantages are when: pioneering leadership is more costly than imitating followership and only negligible experience or learning-curve benefits accrue to the leader (follower has lower costs than leader); the products of an innovator are somewhat primitive and do not live up to buyer expectations thus allowing a clever follower to win disenchanted buyers away from the leader with better-performing next-generation products; and technology is advancing rapidly giving fast-followers the opening to leapfrog a first mover’s products with more attractive and full-featured second and third generation products (Thompson Jr, Strickland and Gamble, 2005).

2.3.3 Strategic Alliances

Strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997). While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm's competitive position in many industries. Competitors can serve a variety of strategic purposes that increase a firm’s sustainable competitive advantage and improve the structure of its industry (Porter, 1985).

According to Wheelen and Hunger (2004), companies for strategic alliances to obtain technology and manufacturing capabilities, obtain access to specific markets, reduce financial risk, reduce political risk and achieve or ensure competitive advantage. Even the largest and most financially sound companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expansive skills, resources, technological expertise and competitive capabilities than they can assemble and manage alone. Such companies, along with others that are missing the resources and competitive capabilities needed to pursue promising
opportunities have determined that the fastest way to fill the gap is often to form alliances with enterprises having the desired strengths (Thompson Jr, Strickland and Gamble, 2005).

2.3.4 Competitive Advantage

As Ansoff and McDonnell (1990) argued, business firms are in a constant two way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1997). Economic factors concern the nature and direction of the economy in which a firm operates (Pearce and Robinson (2005). A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment. Pearce and Robinson (2005) state that economic factors concern the nature and direction of the economy in which a firm operates. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product. A firm must therefore include these factors in its strategy formulation (Ghemawat, 1991).

Kombo (1997) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services (Chwelos 2001). They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition.

According to Mckinsey Company’s consultants, the fastest and most effective way for a firm to achieve maximum profit is to get its price right (Marn and Rosiello, 1992). Given the importance of price in generating revenues and profits for a company, the approach used by service firms in price setting has been relatively unsophisticated. In an attempt to identify
problems and strategies in service marketing, Zeithaml et al. (1985) found that cost-oriented pricing was the most popular approach used by service firms. Although this method offers some advantages, the simplistic nature of cost-oriented pricing is not effective in a complex and competitive business world. As consumers have become more sophisticated and demanding, it is imperative that strategic actions firms be adapted to this changing environment when setting prices. For competitive-oriented pricing approach, the price is set to meet the market competitive situation (Kotler and Bloom, 1984).

Forman and Hunt (2005) point out that pricing decision typically involve a wide array of factors, including those that reside outside of the firm in addition to those that lie within. Key internal decision-making factors such as factory capacity utilization (Cavusgil, 1996), internal cost structure (Monroe, 1990), and market contribution rate (Forman and Lancioni, 2002) have all been found to exert influence on pricing strategy. Previous research also has enlisted external factors, including price elasticity (Monroe, 1990), customer switching costs (Stango, 2002), and barriers to entry (Scheffman and Spiller, 1992). The extent to which these factors enter into the decision process of managers is thought to be contingent on a number of determinants such as managers' international marketing experience, the technological aspects of the product, the level of internationalization, market share, exchange rates, inflation, tariffs, and governmental intervention (Forman and Hunt, 2005).

2.4 Strategies of the Dynamic Environment

Strategy, it turns out, is one of those words that people define in one way and often use in another, without realizing the difference (Mintzberg, 2001). The best strategies see continuously scan the environment and respond the changes in time to counter any affect on companies competitive edge. Organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Ansoff and McDonnell (1990) noted that strategic response involve changes in the firm's strategic behaviors to assure success in transforming future environment.
Strategic response can be at three levels, Corporate, Business and Functional. Corporate-level strategic response is for market definition, business-level strategic responses for market navigation, and functional-level strategic responses that support the other two strategic responses. Corporate-level strategic responses address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. Decisions of about whether to vertically integrate, form strategic alliances, diversify or enter into mergers and acquisitions is part of corporate level strategic responses. (Barney J.B; Hesterly W.S. 2008).

Internal diversification can take place in distinct ways. One of these is to market existing products in new markets. In the case of oil firms, may elect to broaden its geographic base to include new customers, either within its home country or in international markets. The oil firms could also pursue an internal diversification strategy by finding new users for its current product. Finally, oil firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels. In external diversification firms can look outside their current operations and therefore buy access to new products or markets. Mergers are one common form of external diversification. They occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms (Pearce, and Robinson, 2007).

The second form of external growth is acquisition; it occurs when the purchased corporation loses its identity and is thus absorbed by the acquiring firm. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. In most cases of acquisitions larger firms purchase smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased (Pearce, and Robinson, 2007).
According to Pearce and Robinson (2007) vertical integration occurs when firms undertake operations at different stages of production. Involvement in the different stages of production can be developed inside the company or by acquiring another firm. Horizontal integration or diversification involves the firm moving into operations at the same stage of production. Vertical integration is usually related to existing operations and would be considered concentric diversification. Horizontal integration can be either a concentric or a conglomerate form of diversification (Hungler and Wheelen, 2007).

Backward integration allows the diversifying firm to exercise more control over the quality of the supplies being purchased. Backward integration also may be undertaken to provide a more dependable source of needed raw materials. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and serviced. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and servicing its equipment (Hungler and Wheelen, 2007).

Strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997). While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm’s competitive position in many industries. Competitors can serve a variety of strategic purposes that increase a firm’s sustainable competitive advantage and improve the structure of its industry (Porter, 1985). According to Wheelen and Hunger (2004), companies for strategic alliances to obtain technology and manufacturing capabilities, obtain access to specific markets, reduce financial risk, reduce political risk and achieve or ensure competitive advantage.

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. In contrast to corporate-level strategy, however, they focus on only one rather than a portfolio of businesses. Business units represent individual entities oriented toward a
particular industry, product, or market. When outlining the idea of generic strategies, Porter (1985) holds that cost leadership and differentiation signify two fundamentally different approaches to achieve competitive advantage. Basically, strategy is about two things: deciding where you want your business to go, and deciding how to get there. It is about having a competitive edge. Porter (1985) defines competitive advantage as; “Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it.

Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation. The figure 1.2 below defines the choices of "generic strategy" a firm can follow. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs. differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage. There are different risks inherent in each generic strategy, but being "all things to all people" is a sure recipe for mediocrity - getting "stuck in the middle”.

Table 1.2: Porter’s Generic Strategies

<table>
<thead>
<tr>
<th>COMPETITIVE SCOPE</th>
<th>COMPETITIVE ADVANTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad Target</td>
<td>1. Cost Leadership</td>
</tr>
<tr>
<td>Narrow Target</td>
<td>3A. Cost Focus</td>
</tr>
</tbody>
</table>

Source: Porter, 1985, p.12
Treacy and Wiersema (1995) offer another popular generic framework for gaining competitive advantage. In their framework, a firm typically will choose to emphasize one of three “value disciplines”: product leadership, operational excellence, and customer intimacy. Operational Excellence - "best price with least inconvenience". These companies don't focus on delivering the best possible product, or having the closest relationship with their customers. They win by being very efficient at delivering standard products at the best price. Product Leadership - "innovation that delivers the best products". These companies win by delivering new products with new features. Customer Intimacy - "deep customer relationships for customized results". These companies win by understanding their customers deeply and delivering exactly what they need often in a customized way.

Porter (1998) claims that recognizing and accurately reading market signals is of major significance for developing competitive strategy and reading signals from behavior is an essential supplement to competitor analysis. A prerequisite to interpreting signals accurately is to develop a baseline competitor analysis; an understanding of competitors’ future goals, assumptions about the market and themselves, current strategies and capabilities. It is not uncommon for competitors to comment on industry conditions, including forecasts of demand and prices, forecasts of future capacity and the significance of external changes. Such commentary is laden with signals because it may expose the commenting firm’s assumptions about the industry on which it is presumably building its own strategy.

2.4.1 Product Leadership strategy

Product leadership mean that established firms have brand identification and customer loyalties which stem from past advertising, customer service, product differences or simply being first in the industry (Porter, 1998). Because superior benefits tend to enhance customer loyalty and perceived quality, a firm that can exploit its resource-capability combinations to effectively attain a differentiation based competitive advantage should be able to improve its performance compared to competitors by selling more units at the same margin or by selling the same number of units at a greater margin (Zou, Fang and Zhao, 2003).
2.4.2 Differentiation

According to Porter (1985), in differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions itself to meet those needs. The means for differentiation are peculiar to each industry. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach and a broad range of other factors. A firm that can achieve and sustain differentiation will be an above-average performer in its industry if its premium price exceeds the extra costs incurred in being unique. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a low-cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation yields higher margins with which to deal with supplier power and clearly mitigates buyer power since buyers lack comparable alternatives and are thereby less price sensitive (Porter, 1998).

Product differentiation fulfils a customer’s need and involves tailoring the product or service to the customer. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features or after sales support. Firms following a differentiation strategy can charge a higher price for their products based on the products characteristics, the delivery system, the quality of service or the distribution channels (Allen and Helms, 2006).

Smith (2006) claims that to remain competitive, you have to become more conscious about why you are in business in the first place and what you are delivering that makes you unique; it is in differentiation that the vast majority of successful businesses find their competitive advantage. Without competitive advantage, price becomes your only differentiator. When all a customer has to go on is cost, it is easy for him to perceive you as the same as the competition and that leads to margin erosion. Businesses that thrive offer the customer something more important than the lowest possible price. Customers will pay more for convenience, higher quality and trendier products, expert advice and personal service as
well as their own image. Strength is not a competitive advantage, a company needs strengths to be in business but they are not differentiators.

### 2.4.3 Cost Leadership

According to Porter (1985), a low cost producer must find and exploit all sources of cost advantage. Low cost producers typically sell standard or no frills, product and place considerable emphasis on reaping scale or absolute cost advantages from all sources. If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. Porter (1998) claims that cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales force and advertising.

A firm’s cost position gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry. A low cost position defends the firm against powerful buyers because buyers can exert power only to drive down prices to the level of the next most efficient competitor; it also provides a defense against powerful suppliers by providing more flexibility to cope with input cost increases. With a cost-based structure a firm can improve its competitive stance by lowering its production and marketing costs. A lower cost structure can improve profitability and market share (Koo, Koh and Nam, 2004). Business strategy based on cost leadership must be associated with capabilities focused on cost reduction to be effective. A strategy based on differentiation must be associated with capabilities focused on flexibility. Capabilities stand out as internal contingencies that link business strategy with performance (Benito and Gonzalez, 2009).

According to Smith (2006), most businesses cannot exist by being the lowest-cost providers; still too many companies allow price to be their only differentiator. All those companies racing to the bottom are ignoring the vital fact that price isn’t everything, when you compete on price, you’re accepting commodity status. A company concentrating on price therefore
becomes a commodity supplier rather than a marketer and if it does not enjoy vast
economies of scale, it will be whistling through to the graveyard. There are other ways to
help your customers cut costs that have nothing to do with lowering prices. If your products
and services are more reliable, you can save customers costly down time.

2.4.4 Customer Intimacy
Customer Intimacy simple means "deep customer relationships for customized results". Companies using this strategy win by understanding their customers deeply and delivering exactly what they need often in a customized way. Porter (1998) claims that recognizing and accurately reading market signals is of major significance for developing competitive strategy and reading signals from behaviour is an essential supplement to competitor analysis. A prerequisite to interpreting signals accurately is to develop a baseline competitor analysis; an understanding of competitors' future goals, assumptions about the market and themselves, current strategies and capabilities. It is not uncommon for competitors to comment on industry conditions, including forecasts of demand and prices, forecasts of future capacity and the significance of external changes. Such commentary is laden with signals because it may expose the commenting firm's assumptions about the industry on which it is presumably building its own strategy.

2.5 Chapter Summary
This chapter has reviewed literature basing on the three research questions of this study. Views of scholars have been analyzed on the three strategies for competitive advantage: cost leadership, differentiation and focus strategy. The chapter also offers an overview of internal factors contributing relevant in a dynamic economic environment, such as product differentiation, reputation and buyer uncertainty, network effects, switching costs, learning or experience curve, management expertise and human resources, inimitable resources asymmetries and pricing. The next chapter provides the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology components of the study, that is, research design, target population and sample selection, research instruments and data analysis. Consequently, the study will be conducted in an objective, systematic manner of gathering information so as to attain the objectives.

3.2 Research Design

According to De Vos (2002) there are two broad approaches that can be followed when conducting research, namely, qualitative and quantitative research methods. Neuman (1995) indicates that a qualitative research method focuses on constructing social reality and events, uses few subjects and thematic analysis. On the other hand, quantitative research method focuses on subjective facts, uses many subjects and statistical analysis (Neuman, 1995). The study is quantitative in approach and the design used is descriptive. However the study included some qualitative aspects in the data collection.

The research design for this study was a descriptive design. The method was an efficient way to obtain information needed to describe opinions and views of employees in a multinational oil company on the impact of value chain management strategy and performance of their company. The emphasis was on the sample since the aim was to make generalization on multinational oil industry strategies in facing the dynamic environment by oil companies in Kenya. The advantages of selecting a descriptive study upon other research design is because researcher needed to collect information from a fairly small sample population thereby many respondents can be questioned fairly quickly.
3.3 Population and Sampling Design

3.3.1 Population

According to Cooper and Schindler (2000) a population is a collection of elements for which inferences are made. In this study, the study population will be the staff of the Libya Oil Kenya Limited located within all facilities country wide. Therefore the population elements in this study were the company’s total population of one hundred and eighty (180) as per the list obtained from the Human Resources department as at October 2011.

3.3.2 The Sampling Design

According to Cooper and Schindler (2000), a sampling frame is defined as the ‘list of elements from which the sampling is actually drawn’ In this case, the sampling frame shall comprise of only the management staff of the company. As outlined in the scope of the study, this paper focused mainly on the company’s management staff only. This is because the paper takes an organizational view of strategic response to dynamic economic environment as opposed to a departmental view which is operational. The population of the study was stratified along the functions identified. A list of names of all employees in the Libya Oil Kenya Limited management was obtained and analyzed by department to facilitate sampling.

Table 3.2 provides the population distribution and sampling frame across the nine business functions.
Table 3.2: Total Population and Sampling Frame

<table>
<thead>
<tr>
<th>Function</th>
<th>Total Population</th>
<th>Percentage of the Total</th>
<th>Sampling Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Engineering</td>
<td>95</td>
<td>53%</td>
<td>25</td>
</tr>
<tr>
<td>Human Resources</td>
<td>8</td>
<td>4%</td>
<td>5</td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>24</td>
<td>13%</td>
<td>11</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>30</td>
<td>17%</td>
<td>15</td>
</tr>
<tr>
<td>Legal</td>
<td>4</td>
<td>2%</td>
<td>1</td>
</tr>
<tr>
<td>Exports</td>
<td>2</td>
<td>1%</td>
<td>1</td>
</tr>
<tr>
<td>Special Projects</td>
<td>1</td>
<td>1%</td>
<td>1</td>
</tr>
<tr>
<td>Supply</td>
<td>10</td>
<td>6%</td>
<td>4</td>
</tr>
<tr>
<td>Corporate</td>
<td>6</td>
<td>3%</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>180</strong></td>
<td><strong>100%</strong></td>
<td><strong>65</strong></td>
</tr>
</tbody>
</table>

Source: Oilibya (2012)

3.3.2.1 Sampling Frame
According to Lewis, Saunders and Thornhill (2003), a sampling frame is a list of the elements from which the sample is actually drawn, and is closely related to the population. However, this list maybe incomplete or inaccurate, with the result that some members of the population may not have their due chance of being selected for the sample. The sampling frame used in this research consisted of complete and correct list of population members only. The Sampling Frame used was the list of 100 employees of Libya Oil limited.

3.3.2.2 Sampling Techniques
According to Cooper and Schindler (2000) method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample.

Stratified random sampling method was used. In this case, the management staff were categorized in terms of department each consisting of a stratum. A representative sample
was picked at random from each of the four functions identified. Every potential respondent had an equal chance of being picked since the sampling was done at random. Stratification was to ensure fair representation of all business functions. This sampling technique ensured that there is no bias in the sample selected.

### 3.3.2.3 Sample Size

Owing to the size of the sampling frame, a ninety five per cent (95%) sample size was selected for purposes of this study. This sample size was picked in relative proportions from each of the business functions. This sample size was considered appropriate and representative of the entire population.

**Table 3.2: Sample Size**

<table>
<thead>
<tr>
<th>Function</th>
<th>Sampling Frame</th>
<th>Sample size (percentage)</th>
<th>The Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Engineering</td>
<td>25</td>
<td>95</td>
<td>14</td>
</tr>
<tr>
<td>Human Resources</td>
<td>5</td>
<td>95</td>
<td>4</td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>11</td>
<td>95</td>
<td>10</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>15</td>
<td>95</td>
<td>14</td>
</tr>
<tr>
<td>Legal</td>
<td>1</td>
<td>95</td>
<td>1</td>
</tr>
<tr>
<td>Exports</td>
<td>1</td>
<td>95</td>
<td>1</td>
</tr>
<tr>
<td>Special Projects</td>
<td>1</td>
<td>95</td>
<td>1</td>
</tr>
<tr>
<td>Supply</td>
<td>4</td>
<td>95</td>
<td>4</td>
</tr>
<tr>
<td>Corporate</td>
<td>2</td>
<td>95</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>65</strong></td>
<td><strong>95</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

*Source: OiLibya (2012)*

### 3.4 Data Collection Methods

Both Primary and secondary data was collected. Whereas secondary data was collected from secondary sources such as company strategic plans, policies and procedures, primary data was collected using a structured questionnaire. This questionnaire entailed both open and
closed questions. While closed ended questions facilitated data coding, open ended questions assisted not only obtaining additional information but also in making inferences and recommendations.

3.5 Research Procedures

The research instrument that was used in the study was developed based on the research objectives. A pre-test questionnaire was carried out to assess the appropriateness of the questions in terms of flow, understanding and respondents ability to respond appropriately. The questionnaire pre-test were sent to 5 managerial staff that constitutes twenty percent of the sample size. After pre-test, the feedback and comments from the field was reviewed and the questionnaires updated accordingly. This was done to help fine tune the tools before actual research was undertaken. Subsequently, the questionnaires were coded before being administered. The questionnaires were administered on a drop and pick method as all the staff are within Libya Oil Kenya facilities. In addition to the above, the questionnaires were also be sent to respondents on email.

3.6 Data Analysis Method

After all the data had been collected, it was coded, cleaned and formatted in a mode that can be picked by a suitable statistical package. This was undertaken to ensure and enhance accuracy. Thereafter it was analyzed using MS Excel data analysis tool and statistical package for social studies (SPSS) in terms of frequency tables, charts, graphs amongst others. This provided a clear basis of comparison and interpretation of the study findings. The information was presented and discussed as per the objectives and research questions of the study.

3.7 Chapter Summary

This chapter gave an insight on how the study was conducted. It has described the research design and the methodology that was adopted by the researcher. Specifically discussed in the chapter are, the research design, target population, sampling design in that order. This is followed by the data collection research procedure and data analysis. The next chapter provides the research findings and interpretation.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study on the strategic response in Kenya’s oil industry as presented in the case of Libya Oil Kenya Limited. These findings are presented in sections that give a background, highlight the challenges faced by oil companies in a dynamic economic environment, analyze the various internal and external organizational capabilities relevant in a dynamic economic environment and finally analyze strategies used by oil companies to develop sustainable competitive advantage.

4.2 Background Information

4.2.1 Level of Education

Table 4.1 below shows the level of education of respondents in Libya Oil Kenya Limited.

Table 4.1 Respondents Level of Education

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorate</td>
<td>6</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>14</td>
<td>27.5</td>
<td>39.2</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>27</td>
<td>52.9</td>
<td>92.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>3</td>
<td>5.9</td>
<td>98.0</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data 2012

Table 4.1 indicates that 52.9% of the respondents from Libya Oil Kenya Limited have undergraduate qualifications, 27.5% are holders of post graduate degrees, and 11.8% have
Doctorate qualifications while diploma and other educational qualifications made up 7.9% of the respondents.

4.2.2 Years of Work Experience

The numbers of years that the respondents have been working are as shown in figure 4.1.

As indicated in figure 4.1, of all the respondents that were sampled, 41.18% of the respondents had been working for 0 – 5 years, 23.53% had been working for 5 – 10 years, 23.53% had been working for 10 – 15 years while 11.6% had been working for over 15 years.

4.2.3 Gender

The study also sought to find out the gender distribution of the respondents. The results of the findings are shown in table 4.2.
Table 4.2: Gender of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>15</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>Male</td>
<td>36</td>
<td>70.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

Table 4.2 shows that male respondents constituted 71% of the respondents while the female respondents accounted for the remaining 29%, an indication that majority of the respondents were of the male gender.

4.2.4 Work Experience at Libya Oil Kenya Limited

The number of years that the respondents have been working at Libya Oil Kenya limited is as represented by figure 4.2.

Figure 4.2 Respondents work Experience at Libya Oil Kenya Limited

Figure 4.2 shows that of all the respondents, 62.75% had worked for Libya oil Kenya limited for 0 – 5 years, 19.61% had been working for 5 – 10 years, 11.76% had been working for 10 – 15 years while only 5.88% had been working for Libya oil Kenya limited for over 15 years.
4.2.5 Department

Table 4.3 shows the different departments the respondents at Libya Oil Kenya Limited are working.

Table 4.3: Respondents Department

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations and Engineering</td>
<td>12</td>
<td>23.5</td>
<td>23.5</td>
</tr>
<tr>
<td>Human Resources</td>
<td>3</td>
<td>5.9</td>
<td>29.4</td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>7</td>
<td>13.7</td>
<td>43.1</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>22</td>
<td>43.1</td>
<td>86.3</td>
</tr>
<tr>
<td>Legal</td>
<td>4</td>
<td>7.8</td>
<td>94.1</td>
</tr>
<tr>
<td>Supply</td>
<td>3</td>
<td>5.9</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

Analysis of table 4.3 indicates that majority of the respondents, 43.1%, work in the sales and marketing department while 23.5% are in the Operations and engineering department. 13.7% of the respondents are in the finance department while the legal, supply and human resource departments account for 7.8%, 5.9% and 5.9% respectively.

4.2.6 Level of Responsibility

The researcher was interested in determining the level of responsibility held by each of the respondents. This is presented in table 4.4.
As shown in table 4.4, 37% of the respondents were either territory manager or supervisors, 28% were Business line managers, 20% were managers while 16% were analysts.

4.2.7 Respondents Job Location

The study also sought to identify the respondents' location. Table 4.5 shows the location where the respondent's workplace is based.

Table 4.4: Respondents level of Responsibility

<table>
<thead>
<tr>
<th>Level of Responsibility</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Line Manager</td>
<td>14</td>
<td>27.5</td>
<td>27.5</td>
</tr>
<tr>
<td>Manager</td>
<td>10</td>
<td>19.6</td>
<td>47.1</td>
</tr>
<tr>
<td>Territory Manager/ Supervisor</td>
<td>19</td>
<td>37.3</td>
<td>84.3</td>
</tr>
<tr>
<td>Analyst</td>
<td>8</td>
<td>15.7</td>
<td>100.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

Table 4.5 reveals that majority of the respondents, 90%, were based at the Head Office in Nairobi, while 8% of the respondents were based at the Eldoret Plant. Respondents from the Mombasa Fuels Terminal accounted for the remaining 2% of the respondents.
4.2.8 Years of Service in Current Job

The numbers of years that respondents have been holding their current positions at Libya Oil Kenya Limited are represented in figure 4.3.

As indicated in figure 4.3, 63% of the respondents have been holding the current job position at Libya Oil Kenya Limited for 1 – 3 Years. 20% of the respondents had held their jobs for over five years while 12% had held their jobs for 0 – 1 years and 6% for 3 – 5 years.

4.3 Challenges Faced By Oil Companies in a Dynamic Economic Environment

The objective in this section was to determine challenges faced by oil companies in a dynamic economic environment.

4.3.1 Awareness of Challenges Facing Oil Companies

Figure 4.4 presents the results of the respondents’ views on the awareness of the respondents of the existence of challenges at Libya Oil Kenya Limited.
As is shown in the figure 4.4, 84% of the respondents were aware of the existence of challenges at Libya oil Kenya limited while 16% of the respondents were not aware of its existence.

4.3.2 Change

Figure 4.5 presents the results of the study with regards to the extent to which change as a challenge to oil companies in Kenya.
From figure 4.5, it is clearly noted that 84% of the respondents stated that change at Libya oil kenya limited was a challenge to a very large extent while the remaining 16% felt that it was a challenge to a large extent.

4.3.4 Competition

Figure 4.6 presents the study findings with respect to the extent to which competition acts as a challenge to oil marketing companies in Kenya.
As shown in figure 4.6, 75% of the respondents felt that competition is to a very large extent a challenge to oil marketing companies in Kenya while the remaining 25% felt that it was to a large extent a challenge.

4.3.5 Complexity

Figure 4.7 presents the results of the findings with regards to the extent to which complexity is a challenge to oil marketing companies.
An analysis of figure 4.7 reveals that 65% of the respondents felt that complexity to a very large extent acts as a challenge to oil marketing companies while the remaining 35% felt that it was a challenge just to a large extent.

4.3.6 Conscience

Figure 4.8 presents the study findings with respect to the extent to which conscience acts as challenge to oil marketing companies in Kenya.
As shown in Figure 4.8 above, 67% of the respondents stated that conscience affects oil marketing companies to a very large extent, 17% felt that it affected them to a large extent, 7% felt that it was neither affecting oil marketing companies to a large extent nor to a very large extent while 8% felt that it affecting them to a lesser extent.

**4.4 Internal and External Organizational Capabilities Relevant in A Dynamic Economic Environment**

The study also sought to investigate the internal organizational capabilities that are relevant in a dynamic economic environment.

**4.4.1 Product Differentiation**

The study sought to show how product differentiation plays an essential role in a dynamic economic environment. Table 4.6 shows the results of the respondents.
Table 4.6 Product Differentiation

<table>
<thead>
<tr>
<th>Product Differentiation</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>High</td>
<td>43</td>
</tr>
<tr>
<td>Moderate</td>
<td>7</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

As seen in the table, 84 percent of the respondents highly rated differentiation as the contributing factor to competitive advantage. 14 percent moderately rated it while 2 percent lowly rated differentiation as a contributing factor to the Company’s competitive advantage. It follows that product differentiation is relevant in a dynamic economic environment in Kenya.

4.4.2 Inimitable Resources

The study sought to show how inimitable resources are essential in a dynamic economic environment in Kenya. The table 4.7 shows the results of the responses.

Table 4.7 Inimitable Resources

<table>
<thead>
<tr>
<th>Inimitable Resources</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>High</td>
<td>31</td>
</tr>
<tr>
<td>Moderate</td>
<td>16</td>
</tr>
<tr>
<td>Low</td>
<td>3</td>
</tr>
<tr>
<td>Never</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012
As seen in the table, 60 percent of the respondents highly rated inimitable resources as the contributing factor to competitive advantage, 30 percent moderately rated it while 6 percent lowly rated inimitable resources as a contributing factor to the company’s competitive advantage, and 4 percent of the respondents believe that inimitable resources never contribute to competitive advantage. In this regard inimitable resources contribute in a greater way to the company’s competitive advantage.

4.4.3 Learning/Experience Curve
The study sought to show how learning is relevant in a dynamic economic environment. The table 4.8 shows the results of the responses.

<table>
<thead>
<tr>
<th>Learning/Experience Curve</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>High</td>
<td>18</td>
</tr>
<tr>
<td>Moderate</td>
<td>24</td>
</tr>
<tr>
<td>Low</td>
<td>7</td>
</tr>
<tr>
<td>Never</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

As seen in the table, 36 percent of the respondents highly rated learning as being very relevant for oil marketing companies in a dynamic economic environment in Kenya. Similarly 48.0 percent moderately rated it while 13 percent lowly it and 3 percent of the respondents believe that learning is not relevant in a dynamic economic environment.

4.4.4 Pricing
Table 4.9 shows the results of the respondents view on the contribution of pricing to the company’s competitive advantage.
Table 4.9 Pricing

<table>
<thead>
<tr>
<th>Pricing</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>High</td>
<td>6</td>
</tr>
<tr>
<td>Moderate</td>
<td>25</td>
</tr>
<tr>
<td>Low</td>
<td>17</td>
</tr>
<tr>
<td>None</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

As seen in the table, 12 percent of the respondents highly rated price to be the contributing factor to competitive advantage while 50 percent moderately rated it. On the other hand 34 percent rated pricing as contributing lowly to the company’s competitive advantage, and 4 percent of the respondents believe that it is not relevant in a dynamic economic environment.

4.4.5 Government policy and regulation pressure

The table 4.10 shows the results of the responses given with regards to the contributions made by the government policy and regulation pressure.

Table 4.10 Government policy and regulation pressure

<table>
<thead>
<tr>
<th>Government policy &amp; Regulation Pressure</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Moderate</td>
<td>23</td>
<td>45</td>
</tr>
<tr>
<td>Low</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Source Survey Data, 2012

48
As shown in the table 38 percent of the respondents highly rate the government policy, while 45 percent rate it moderately. The remaining 17 percent rate it lowly. The results show that indeed government policy and regulation pressure contributes to the strategic advantage of the company.

4.4.6 Market Conditions

The table 4.11 shows the results of the responses given with regards to the contributions made by the market conditions

<table>
<thead>
<tr>
<th>Market Conditions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>26</td>
<td>51</td>
</tr>
<tr>
<td>Moderate</td>
<td>19</td>
<td>37</td>
</tr>
<tr>
<td>Low</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>None</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2012

As shown in the table 51 percent of the respondents highly rate the contribution made by market conditions, while 37 percent rate it moderately. On the other hand 9 percent rate it lowly, while 3 percent believe that market conditions make no contribution to the Company’s competitive advantage. From the results it is clear that market conditions influence the Company’s competitive advantage.

4.5 Strategies Used By Oil Companies To Develop Sustainable Competitive Advantage

The study sought to establish the strategic response to dynamic economic environment as seen in different oil companies. The following sub-sections provide a summary of the study findings in this regard. Figure 4.9 shows the respondents views with regards to the various strategic responses pursued by oil companies in a dynamic economic environment.
Figure 4.9: Strategic Responses Pursued by Oil Companies in a Dynamic Economic Environment

As seen in the figure, focus market (50 Percent), joint ventures (50 percent), strategic alliances (64 percent) as well as corporate diversification (34 percent) stood out as the popular strategies used by oil marketing companies in a dynamic economic environment. The other strategies although used by the oil marketing companies, they are not very popular. In light of these finding the study sought to narrow down on the each specific strategy and how it is applied in a dynamic environment.

4.5.1 Suitable Strategic Combinations

Figure 4.10 shows the results of the responses with regards to the suitable strategic combinations.
Figure 4.10: Suitable Strategic Combinations

The results of the study show that 5 percent of the respondents were in support of a combination between differentiation and market focus strategy. 2 percent of the respondents were in favor of a combination of the low cost leadership and differentiation strategy while 21 percent of the respondents were in support of a combination of corporate diversification and acquisition strategy. Similarly 32 percent of the respondents were in favor of mergers and acquisition and strategic alliances while 40 percent of the respondents went for strategic alliances and joint ventures.

4.5 Chapter Summary

In this chapter the researcher has provided the findings with regards to the information issued by the respondents. The initial section provides the results in terms of the respondent’s background, which is followed by the strategic response by the oil marketing companies in a dynamic economic environment. The next chapter offers the conclusion, summary as well as the discussions and the recommendations.
5.1 Introduction
This chapter consists of four sections, namely summary, discussion, conclusions, and recommendations following that order. The first section provides a summary of the important elements of the study which includes the study objectives, methodology and the findings. The second section discusses the major findings of the study with regards to the specific objectives. The third section discusses the conclusions based on the specific objectives, while using the findings and results which are obtained in the fourth chapter.

5.2 Summary
The main purpose of the study was to analyze the strategic response by oil marketing companies in Kenya. The research was guided by the following three questions: What are the various challenges faced by oil companies in a dynamic economic environment? Which are the various internal and external organizational capabilities relevant in a dynamic economic environment? What strategies are used by oil companies to develop sustainable competitive advantage?

In order to achieve the above, a descriptive research design was adopted. This was able to give room for obtaining the necessary data. These data indeed facilitated collection of the primary data. It was through the primary data that the research objectives were obtained. The study population was one hundred and eighty respondents who are employees of Libya Oil Kenya Company Limited. The non probability sampling technique was to determine the sample size this was so because of the homogeneity of the population and also to ensure that there was low refusal rates.

In this case, also Stratified random sampling method was used. In this case, the management staff were categorized in terms of department each consisting of a stratum. A representative
sample was picked at random from each of the four functions identified. This sampling technique ensured that there is no bias in the sample selected. The sample size was therefore fifty one respondents. Structured questionnaires were used in the collection of primary data. They were then after pilot tested in order to ensure that there was reliability as well as validity. Data coding was done using statistical packages for instance Microsoft Excel as well as SPSS in order to generate the descriptive statistics which included the frequencies and percentages. Presentation of the results was in form of figures, tables as well as cross tabulations.

The study findings revealed that the majority of the respondents (70.6%) were of males, whereas female respondents were only 29.4 percent. The study findings also showed that most of the respondents (41.8%) have been in the company for not more than five years. The findings also revealed that the majority of the respondents believe that the challenges facing oil marketing companies in Kenya are many although the most outstanding challenges especially in the dynamic economic environment are: change, competition, complexity and conscience.

Concerning the internal capabilities that make oil marketing companies to have a competitive advantage, the study revealed that the majority of the respondents (85%) highly rated product differentiation as an internal capability that enhances competitive advantage. At the same time 60 percent of the respondents highly rated imitable resources as a contributor to competitive advantage. With regards to the external factors contributing to the competitive advantage, the study findings revealed that the first mover advantage was highly rated (69%) to be the highest influencer as far as competitive advantage is concerned. The majority of the respondents (44%) believed that strategic alliances also do influence competitive advantage.

The study findings also revealed that the three strategies used by oil marketing companies in the dynamic economic environment in Kenyan revealed that most of the respondents were of the opinion that Low cost leadership, differentiation, as well as market focus strategies were mostly used by these companies as they contributed to the competitive advantage. The
findings on the strategic response by oil marketing companies to a dynamic economic environment in Kenya revealed that focus market (50 percent), joint ventures (50 percent), strategic alliances (64 percent) as well as corporate diversification (34 percent) stood out as the popular strategies used by oil marketing companies in a dynamic economic environment. The other strategies although used by the oil marketing companies, they are not very popular. The findings also revealed that a combination of strategic alliances and joint ventures was the best suitable in a dynamic economic environment.

5.3 Discussion

This section offers a discussion with the basis on the research specific objectives. The comparison of the literature review with the research findings is also done in this section.

5.3.1 Challenges Faced by Multinational Oil Companies in Changing Economic Environment in Kenya

The study findings revealed that indeed there are numerous challenges facing oil marketing companies. Among the most outstanding challenges facing such firms as stated by the respondents included change. The respondents regarded change to be a very challenging factor for oil marketing companies. Rapid change pervades all aspects of operations in global markets as well as the context in which they take place. Not only are the rates of technological evolution, knowledge obsolescence and the intensity of competition increasing at an alarming pace in many industries, but unforeseen events are dramatically changing the political and economic context in which markets develop and strategies are formulated. Technological change renders product development, production processes, and experience rapidly obsolete and contributes to escalating investment costs as well as heightened competitive pressures. In the notebook segment of the personal computer industry, for example, the cycle of new model introduction has shrunk to less than three months, rendering models rapidly obsolete and requiring constant vigilance to new product development and attention to keeping ahead of the competition (Allen, et al., 2006).

At the same time, as customers become more mobile and are exposed to new ideas and patterns of behavior through the new global media, the diffusion of new products and
innovation takes place more rapidly. Rather than first being adopted by opinion leaders and then trickling down to other members of society, innovations are now spreading horizontally across countries and societies. No sooner does a new trend or fashion emerge in one country than it spreads rapidly to another. Not only are global marketers agents of change in introducing new and innovative products and services to other countries, but in addition, they must respond to the rapid pace at which societies are changing and market trends evolving (Sterling, 2003).

The findings also revealed that complexity was a challenge to oil marketing companies in Kenya. This can be attributed to the fact that the geographic scope and scale of operations is extending further and further, management is faced with the task of directing and controlling diverse and far-flung activities at various stages in the value chain, often in widely divergent environmental contexts. Additional layers of organization begin to creep into the corporate infrastructure and further complicate the global management task. With trends toward regional market integration, management systems are established to direct and coordinate market operations within a region, and to provide an intermediate link between corporate headquarters and local management (Allen, et al., 2006). At the same time, organizational links between functions in each stage of the value chain are added at a global level to ensure the transfer of ideas, information and experience across geographic areas and to exploit potential synergies worldwide. Similarly, as customer markets become more dispersed, establishment of linkages with customers and suppliers becomes increasing critical in order to coordinate supplying and servicing these markets rapidly and efficiently, and to compete effectively in global markets.

The study findings also revealed that competition was another challenge facing oil marketing companies in Kenya. This can be attributed to opening up of markets which are becoming more integrated, the pace of change accelerates, technology shrinks distances between markets and reduces the scale advantages of large firms, new sources of competition emerge, and competitive pressures mount at all levels of the organization. As more and more firms venture into global markets, competition proliferates, posing new threats and dangers to be reckoned with. In addition to facing competition from well-
established multinationals and from domestic firms entrenched in their respective product or service markets, firms face growing competition from firms in newly industrializing countries and previously protected markets in the Third World, as well as emerging global networks or coalitions of organizations of diverse national origins (David, 2009).

The study findings also revealed that conscience is another challenge facing oil companies. This relates to the firm’s moral and social responsibilities in the global marketplace. A host of such responsibilities can be identified, covering a broader spectrum of social and corporate issues. Environmental issues, for example, have emerged as a key theme in the 90's. Companies have become increasingly aware of the need to take measures to limit destruction of the environment. These include measures to limit pollution of the atmosphere through the emission of gases and other toxic substances, to conserve resources such as paper and plastic, whose production results in environmental destruction, and to produce and design products and packaging which are environmentally friendly. Such measures need to cover all aspects of the firm's activities from research and development and production to marketing and service, as well as its operations in all parts of the world (Koo, 2004).

5.3.2 Internal and External Organizational Capabilities Relevant in a Dynamic Economic Environment

According to the study, majority of the respondents affirmed that indeed there are internal organizational capabilities that contribute to the competitive advantage. Looking at the product differentiation, it is indeed certain that the study was able to establish the contribution of this aspect to the organizational competitive advantage. These findings align with Zou, Fang and Zhao (2003) who argue that product differentiation enables an organization to achieve improved performance with regards to the competition. This is because superior benefits tend to bring about an enhancement of customer loyalty and perceived quality, which a firm can exploit with respect to its resource-capability combinations to effectively attain a differentiation, based competitive advantage. This therefore should be able to improve its performance compared to competitors by selling more units at the same margin or by selling the same number of units at a greater margin
According to Greeve (2009) inimitable resources provide a sustained competitive advantage if indeed they are valuable, rare, imperfectly imitable and non substitutable. It follows that resources ought to yield a superior product/ service or lower costs if indeed their value has to be achieved and they must be rare to ensure that the resource holders do not compete away the value they create. The findings reveal that indeed inimitable resources contribute to the competitive advantage of the organization.

The need to invest large financial resources in order to compete creates an edge, particularly if the capital is required for risky or unrecoverable up-front advertising or research and development. Even if capital is available on the capital markets, imitation represents a risky use of that capital which should be reflected in risk premiums charged the prospective entrant; these constitute advantages for going firms (Porter, 1998). These findings also coincide with the argument of Newbert (2008) when he ascertains that the magnitude of a firm's competitive advantage is a function of its resources and capabilities: in this regard therefore firms whose resources and capabilities are of marginal value will at best attain competitive advantage while firms whose resources and capabilities are of great value will likely attain sustainable advantage.

In his study, Porter (1998) urges that there is an observed tendency for unit costs to decline as the firm gains more cumulative experience in producing a product. He also argues that costs decline because workers improve their methods and become more efficient, layout improves, specialized equipment and processes are developed, better performance is coaxed from equipment, product design changes make manufacturing easier, techniques for measurement and control or operations improve. The findings also ascertain that learning tendency contributes to the competitive advantage of the organization. The study also reinforces the study carried out by Cabrales, Valle and Herrero (2006) when they stated that firms can be able to generate human capital advantage through the process of recruiting and retaining outstanding people, that is, through capturing a stock exceptional human talent. It also follows that valuable and inimitable employees who are properly managed can be associated with the development of competitive advantage.
5.3.3 Strategies of the Dynamic Environment

The strategic response by oil marketing companies in Kenya drew various responses from the respondents. Majority of the respondents believed that focus market strategy was a suitable strategic response to the dynamic economic environment in Kenya. According to Treacy and Wiersema (1995) a firm typically will choose to emphasize one of three “value disciplines”: product leadership, operational excellence, and customer intimacy. Operational Excellence - "best price with least inconvenience".

The respondents also believed that joint venture was also a strategic response to the dynamic economic environment as pursued by oil marketing firms in Kenya. These findings align with the argument by Pearce and Robinson who avows that firms can look outside their current operations and therefore buy access to new products or markets. Joint ventures are one common form of external diversification. They occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms (Pearce, and Robinson, 2007).

Majority of the respondents also believed that strategic alliances as a strategic response to a dynamic economic environment was being pursued by oil marketing companies in Kenya. Oliver (1997) concurs with this finding when he avows that strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. According to Wheelen and Hunger (2004), companies for strategic alliances to obtain technology and manufacturing capabilities, obtain access to specific markets, reduce financial risk, reduce political risk and achieve or ensure competitive advantage. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Oliver, 1997). While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm’s competitive position in many industries. Competitors can serve a variety of strategic
purposes that increase a firm’s sustainable competitive advantage and improve the structure of its industry (Porter, 1985).

The findings also revealed that the respondents were of the opinion that corporate diversification stood out as the popular strategic response in a dynamic economic environment. Corporate-level strategic responses address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. Decisions of about whether to vertically integrate, form strategic alliances, diversify or enter into mergers and acquisitions is part of corporate level strategic responses. (Barney J.B; Hesterly W.S, 2008). Internal diversification can take place in distinct ways. One of these is to market existing products in new markets. In the case of oil firms, may elect to broaden its geographic base to include new customers, either within its home country or in international markets. The oil firms could also pursue an internal diversification strategy by finding new users for its current product. Finally, oil firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

5.4 Conclusion

The purpose of this study was to analyze the strategic response by oil marketing companies to the dynamic economic environment in Kenya. The following are the major conclusions based on the findings and discussions.

5.4.1 Challenges Faced by Multinational Oil Companies in Changing Economic Environment in Kenya

The external environment in which Oil Companies in Kenya are operating has been very dynamic in the last two decades since liberalization. From the research it is clear that the
new entrants into the market have been very high in the last decade representing over 70 percent of the companies. Pearce and Robinson (2005), states that consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. The new entrants can be said to be winning on this front, as such the study concludes that the challenges facing oil marketing companies in Kenya are enormous, however the most outstanding challenges which are synonymous to all oil marketing companies are: change, complexity, competition and conscience.

5.4.2 Internal and External Organizational Capabilities Relevant in a Dynamic Economic Environment

The internal organizational capabilities contributing to comparative advantage range from, pricing, switching costs, reputation and buyer uncertainties, learning curve, management and human resource expertise, inimitable resources and product differentiation. The study findings concluded that each internal capability contributes to competitive advantage but with different magnitudes. Similarly the study has established that the external factors indeed contribute to sustainable competitive advantage. However the issue of strategic alliances in the oil industry seems to be the way forward in attaining competitive advantage.

5.4.3 Strategies in a Dynamic Economic Environment

The study has established that the strategic response by oil marketing companies to a dynamic economic environment in revolved around the use of focus market, joint ventures, strategic alliances as well as corporate diversification. Similarly it can be concluded that a combination of strategic alliances and joint ventures was the best suitable in a dynamic economic environment.

5.5 Recommendations

This section gives a recommendation that the researcher indeed feels that are important in formulating guidelines for competitive advantage in the oil industry.
5.5.1 Recommendations for Improvement

5.5.1.1 Challenges Faced by Multinational Oil Companies in Changing Economic Environment in Kenya

Given the challenges facing multinational companies, the researcher believes it is important for businesses to have an appropriate cost-benefits or return on investments analysis before making decisions. Also, a proper analysis of the various strategic areas should be done to ensure that the organization enhances its preparedness in case of challenges posed by dynamic economic environment.

5.5.1.2 Internal and External Organizational Capabilities Relevant in a Dynamic Economic Environment

The external factors that contribute to sustainable advantage indeed play a vital role in the success of any organization. The study therefore recommends that the government regulations as well as other external factors should be aligned in a way that ensures that there is room for companies to explore means of attaining sustainable competitive advantage.

5.5.1.3 Strategies in a Dynamic Economic Environment

With regards to the strategic response to the dynamic economic environment in Kenya, the study recommends that oil marketing companies should consider adopting Domestic or Multi-domestic strategies which are suitable for local economic environment other than applying global strategies that may not be relevant to the dynamic economic environment of oil marketing companies in Kenya. The study further observes and recommends blending of strategic response that are best suited for the market dynamics and in the case three levels are recommended: when going for Strategic Alliances, companies should consider combining this with either Joint Venture in operations as this provides a platform for cost reduction due to economies of scale, while when a company is considering Corporate Diversification, it recommended to combine this with Mergers and Acquisitions as this provide a faster and established approach to market diversification as compared to starting from scratch.
5.5.2 Recommendations for Further Studies

Whereas it cannot be conclusively said based on this study, the recent exits by large multinationals (Kinuu, 2007) could be as a result of inadequate or inappropriate application of strategic response to dynamic economic environment of oil marketing companies in Kenya. In the last decade alone three multinational companies have left. Mobil in 2006, BP in 2007 and Chevron in 2010. Shell which took over BP assets in Kenya, has already sold a joint stake with BP in Mombasa-based Kenya Petroleum Refineries to India multinational, Essar. In April 2010 Shell announced its intentions to leave Africa, including Kenya and its currently moving into a minority shareholding with Vittol and Hellios. Over 70 percent of companies have entered the market in the last decade and most of these are either regional or locally owned. The researcher therefore recommends that since the sector is still growing and very dynamic, it is important for the organizations to put into consideration the aspects that influence the strategic response to a dynamic economic environment. In this regard therefore the researcher recommends that additional studies should be conducted on the strategic response by oil marketing companies to a dynamic economic environment in Kenya and how this has impacted the oil market especially with view of establishing the recent exits by multinational corporations and the emergence of local and regional companies.
REFERENCES


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Kazmi, Azhar (2002), Business Policy and Strategic Management, TMH. New Delhi


Kok's Sheilla. (2008). ‘Strategic Responses by the Barclays Bank of Kenya to changes in the environment’ MBA Thesis, University Of Nairobi


Dear respondent,

I am carrying out a research on strategic response to the dynamic economic environment by multinational oil companies in Kenya. This is in partial fulfillment of the requirement of Masters in Business Administration (MBA) degree program at the United States International University.

This study uses Libya Oil Company in Kenya from which you have been selected as one of the lucky respondents. The result of this study will provide more insight into what oil industries can do to develop and maintain sustainable competitive advantage in their industry.

This is an academic research and confidentiality is strictly emphasized, your name and other credentials will not appear anywhere in the report. The questionnaire takes few minutes only. Kindly spare some time to complete the questionnaire herein.

Thank you in advance,

Yours Sincerely,
II. Questionnaire

Please Tick \( \checkmark \) as appropriate

PART A: General Information

1. Name (Optional)

2. Level of Education
   - \( \Box \) Doctorate
   - \( \Box \) Post Graduate
   - \( \Box \) Undergraduate
   - \( \Box \) Diploma
   - \( \Box \) Certificate
   - \( \Box \) Other (Specify)

3. Years of Work Experience
   - \( \Box \) 0 – 5 years
   - \( \Box \) 5 – 10 years
   - \( \Box \) 10 – 15 years
   - \( \Box \) Over 15 years

4. Gender
   - \( \Box \) Male
   - \( \Box \) Female
5. How many years have you been in the organization?
   ① 0 – 5 years  □
   ② 5 – 10 years  □
   ③ 10 – 15 years  □
   ④ Over 15 years  □

6. Which department do you work?
   ① Operations & Engineering  □
   ② Human Resources  □
   ③ Finance & Accounting  □
   ④ Sales & Marketing  □
   ⑤ Legal  □
   ⑥ Exports  □
   ⑦ Special Projects  □
   ⑧ Supply  □
   ⑨ Corporate  □

7. What is your level of responsibility?
   ① Managing Director  □
   ② Department Manager  □
   ③ Business Line Manager  □
   ④ Manager  □
   ⑤ Territory Manager/Supervisor  □
   ⑥ Analyst  □

8. Which locations are you based?
   ① Head Office Nairobi  □
   ② Nairobi Terminal  □
9. How long have you been in your current job?

- Over 5 years □
- 3 - 5 years □
- 1 - 3 years □
- 0 - 1 year □

PART B: CHALLENGES FACING MULTINATIONAL OIL COMPANIES

1. Are there any challenges facing your company at the moment?

   Yes □
   No □

2. If yes list any challenges facing your company that is known to you.

3. Which of the following do you think acts as a challenge to your company?

<table>
<thead>
<tr>
<th></th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Competition</td>
</tr>
<tr>
<td>3</td>
<td>Complexity</td>
</tr>
<tr>
<td>4</td>
<td>Conscience</td>
</tr>
</tbody>
</table>
4. Rate the following challenges facing oil companies with regards to how they affect your company.

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
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<td></td>
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<tr>
<td>Complexity</td>
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<tr>
<td>Conscience</td>
<td></td>
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</tr>
</tbody>
</table>
PART C: Internal / External Organizational Factors Contributing to Sustainable Competitive Advantage in Dynamic Environment

5. Do you think your organization has a competitive edge over its competitors?
   YES □
   NO □

6. How would you rate your company’s competitive edge?
   High □
   Moderate □
   Low □

7. How much contribution do the following factors make to competitive advantage of your company as an oil marketer?

<table>
<thead>
<tr>
<th>Factor</th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product differentiation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inimitable resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning/experience curve</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management expertise and Human resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Pricing</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Company Brand</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Asymmetries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switching costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Rank the factors listed in Q.12 with respect to their magnitude in influencing strategic advantage in your organization in the order 1, 2, 3

9. Which of the factors below do you consider core contributors to sustainable competitive advantage in the Dynamic Economic Environment?

<table>
<thead>
<tr>
<th>Product differentiation/uniqueness</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inimitable resources</td>
<td></td>
</tr>
<tr>
<td>Learning/experience curve</td>
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<tr>
<td>Management expertise and Human resources</td>
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<td>Reputation</td>
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<td>Company Brand</td>
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<td>Asymmetries</td>
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<tr>
<td>Switching costs</td>
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</tr>
</tbody>
</table>
PART D: External/ Internal factors Contributing to a Sustainable Competitive Advantage in Dynamic Economic Environment

10. Do you think that certain external factors have contributed to your organizations competitive advantage in Dynamic Environment?

   YES: □
   No: □

11. Rate the below factors according to their contribution to Competitive advantage in your organization

<table>
<thead>
<tr>
<th>Factor</th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policy and regulation pressure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First mover advantage</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Strategic alliances</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

12. Should your organization get involved in strategic alliances with other industry players?

   YES □
   NO □

13. If you answered YES to Q16, which of the competitors would be best for your organization to forge an alliance with?

...........................................................................
14. Which range of factors contribute more to competitive advantage of your organization as a company

Internal factors

External Factors

PART E: Oil Marketing Companies Strategic Response Strategies in a Dynamic Economic Environment

15. Which of these strategies does your company pursue?

a) Low cost leadership
b) Differentiation (unique product and services)
c) Focus - Market Segmentation, Targeting and Positioning (STP)
d) Customer Intimacy
e) Faster Mover Advantage
f) Strategic Alliances

16. To what extent does your company use these strategies response in response to changing economic environment.(Tick only one box for each attribute, where 1 = very small extent, 2 = small extent, 3 = moderate extent, 4 = larger extent 5 = very large extent)

<table>
<thead>
<tr>
<th>Strategies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Cost Leadership</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Product Differentiation</td>
<td></td>
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<tr>
<td>Market Segmentation,</td>
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<td></td>
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</tr>
</tbody>
</table>

76
17. Which of the above (Q 23 ) strategies do you think fits the oil market in Kenya?

18. What is the impact of these strategies when adopted for Strategic Response in the Dynamic Economic Environment of the Marketing Oil Companies in Kenyan

<table>
<thead>
<tr>
<th>Strategies</th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low cost leadership</td>
<td></td>
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</tr>
<tr>
<td>Differentiation</td>
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<td></td>
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<tr>
<td>Market Segmentation,</td>
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<tr>
<td>Targeting and Positioning</td>
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<tr>
<td>Operations Excellence</td>
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<tr>
<td>Customer Intimacy</td>
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<tr>
<td>Faster Mover Advantage</td>
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<tr>
<td>Strategic Alliances</td>
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</tbody>
</table>
19. Which of these strategic combinations would suit the oil industry in Kenya?

a) Differentiation and Low cost leadership
b) Differentiation and market focus
c) Low cost leadership and market focus
d) Market Segmentation, Targeting and Positioning
e) Product Leadership (differentiation), Operations Excellence and Customer Intimacy

20. Which other Strategic Response strategies adopted by your company in Dynamic Economic Environment in Kenya

________________________________________
________________________________________
________________________________________
________________________________________
________________________________________

Thank you for your participation