CHALLENGES FACED BY OIL TERMINAL JOINT VENTURES IN KENYA

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DECLARATION

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

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D61/P/8969/04

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

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DEDICATION

To my late dad John Owuor and mum Monica Owuor for teaching me the value of being confident yet humble and for sacrificially seeing me through school.

To my wife Victoria and our lovely kids for being such an inspiration and joy in my life.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Alliances are inter-organizational cooperative structures formed to achieve strategic objectives of the partnering firms. Inter-organizational alliances between firms are of major importance for firms' competitive advantages across a large number of industries (Harrigan, 1985). They are relatively enduring inter-firm cooperative arrangements, involving flows and linkages that use resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm (Parkhe, 1993). Alliances span a variety of structures along a continuum: they could be structured as distinct corporate entities or as inter-organizational entities, encompassing all of the functional areas or just a single function. Typology of strategic alliances is proposed by Yoshino and Rangan (1995), according to the characteristics whether inter-firm links are equity arrangements or contractual agreements, whether the contracts are traditional or nontraditional, whether the equity is newly created or transferred between firms, and so on. From their proposed typology, various forms of strategic alliances are listed including but not limited to Consortia, Franchising, Licensing and Joint ventures.

Consortia involve two or more organizations, both public and private. Their objective is a particular initiative or a particular project. The most significant examples of Consortia are in construction or large infrastructure, like the Channel Tunnel, or aerospace construction, like the European Airbus consortium. Franchising is an agreement in which a company (franchiser) allows another (franchisee) the right to sell its products or services. An exclusive franchise is when the agreement is made with a single company; a non-exclusive franchise when it is made with a number of companies. A franchising contract is set for a specific period of time. The franchisee pays a royalty to the franchiser for the buying rights. The most notable examples are Coca Cola and McDonald's. In these cases, the franchisee carries out a specific activity such as production, distribution or sales, while the franchiser is responsible for the brand, marketing, and often the training. In the fast food sector, and in clothing distribution, franchises are quite common: Burger King, Kentucky Fried Chicken. Licensing is an agreement in which a company allows another (exclusive licensing) or multiple others (non-exclusive licensing) the right to use its technology, distribution network or to manufacture its products. Licensing is based on a contract, generally stipulated for a specific period of time, in which the licensee pays a fixed amount and/or a royalty or fee for the rights that are ceded to it. For an innovative company with limited resources, licensing offers the possibility of presence in multiple markets and recuperating investment capital quickly. The risk is that the company, ceding its own know-how to current or potential competitors (for a long period), therefore loses control over its core technology.

Joint ventures are certainly one of the older modes of inter-firm partnering. Joint ventures have become well known during the past decades (Hladik, 1985). Joint ventures involve creating a new entity in which original partners take active roles in designing strategy, defining agendas for work and in decision-making. There are two kinds of joint ventures: specialization ventures and shared valued-adding ventures (Harrigan, 1985). Specialization ventures are those to which each partner brings and contributes a distinctive competency in a particular value-adding activity (e.g., one produces, the other markets). These ventures are generally organized around functions (marketing, manufacturing, etc.). These are similar to value-chain partnerships (Kanter, 1994). In these partnerships, organizations in different industries or sectors with different but complementary skills link their capabilities to create value for ultimate users (e.g., supplier-customer relationships). Kanter (1994) explains that commitment tends to be high in these relationships. In the shared value-adding ventures, partners participate and share in the value-adding activities together (e.g., both design and produce jointly). These ventures tend to be organized around products or lines of business

During the past decades, empirical evidence indicates that joint ventures have grown extensively in response to industry deregulation, globalization, technology changes and an increasing emphasis on product innovation (Harrigan, 1985). Since dependence on joint ventures has grown significantly in recent years, partnership formation with external parties for variety of reasons has become a central strategic activity for many firms across multiple industries (Gulati, 1998). Bamford *et al* (2004) observed that More than five thousand joint ventures, and many more contractual alliances, had been launched worldwide since 1999. They further note that the largest 100 joint ventures currently represent more than $350 billion in combined annual revenues. Kenyan companies have not been left behind in terms of embracing joint ventures. Many companies consider getting into joint ventures—both equity joint ventures (where the partners contribute resources to create a new company) and contractual alliances (where the partners collaborate without creating a new company)—as a way of increasing their competitive advantage.

1.1.1 Strategic motivation for Joint Ventures

Within the group of studies that focuses on strategic motivations of joint ventures, several authors have developed taxonomies of the motives for the formation of joint ventures (Kogut, 1998). In this research paper five groups of motivations are outlined. The groups include mandated formation, cost minimization, access to resources, learning and strategic positioning. Mandated formation refers to joint ventures that are formed to conform to legal or regulatory requirements. Often, organizations are forced to enter into joint ventures because of legal requirements. International joint ventures might serve as an example. Many international joint ventures have resulted from host country restrictions to foreign ownership. For instance, many developing countries insist that access to the local market can only occur in co-operation with a local partner (Beamish, 1988). In Cost arguments, the motivation for entering a joint venture is cost savings from the joint venture. Particularly for basic research, it has been argued that the increasing cost of innovation might be an important motivation for firms to enter into joint ventures.

Access to resources is another reason to enter into joint ventures. Eisenhardt and Schoonhoven (1996) argue that firms enter into joint ventures for two reasons. First, firms enter into joint ventures if they are in a vulnerable strategic position and need resources from the joint venture. Second, firms enter into joint ventures to capitalize on their assets. In the resource-based view of strategic management, the fundamental argument for joint venture formation is that firms try to create and appropriate value in inter-firm relationships by leveraging superior resources they posses with complementary resources (Stein, 1997). Deeds and Hill (1996) argue that joint ventures give fast access to complementary assets than building these assets internally. Building assets internally is often too time-consuming and might forestall timing based advantages. Sapienza et al. (1997) argue that motivation of a firm to leverage their internal resource pool in external relationships will be a function of the characteristics of the internal resources. Specifically, they argue that the more imitable the core resources of the firm are the lower its motivation to enter into joint ventures.

Learning can be a motivation to enter into joint ventures (Mowery, Oxley, & Silverman, 1996). Kogut (1998) argues that joint ventures are formed because they might help transfer of tacit knowledge that is not easily transferred in arms-length relationships. Joint ventures might enable this context transfer better than market transactions. Strategic positioning can be among the motives to enter into joint ventures (Kogut, 1998). In a study of entry into new technical sub fields of an industry, Mitchell and Singh (1992) find that pre-entry joint ventures are used. They argue that firms use these joint ventures to realize part of the value of specialized assets and to gain information about the emerging market. They further argue that joint ventures are an important means to test technology and market dynamics of an emerging industry sub field. Positioning strategies might play a role for joint ventures. Burgers, Hill and Kim (1993) argue that joint ventures might be a means to reduce competitive uncertainty and competitive pressure. A number of joint ventures are intended to deter entry or to erode competitor's positions (Kogut, 1998).

1.1.2 Joint Venture Challenges

Several authors have identified potential problems and challenges that might lead to failure in joint ventures. Bamford *et al* (2004) have highlighted various reasons for joint venture failure including: wrong strategies, mistrust, incompatible partners, inequitable or unrealistic deals, weak management, inadequate launch planning and execution among others. Harrigan (1985) points out that many joint venture failures can be attributed to compatibility problems between the firms. These might include partners of unequal size, joint venture experience, or managerial style. Other incompatibilities include staffing errors and the lack of participatory management.

Spranger (1991) argues that most joint ventures are doomed to failure from their inception due to insufficient planning, inadequate capitalization, lack of leadership, lack of commitment and cultural and ideological differences. One of the most prevalent reasons for failed joint ventures is a lack of sufficient planning. Joint venture plans consisting of nothing more than a statement of each party's intended contributions to the joint venture and their respective share of the profits seldom work. The parties have nothing to shape their expectations or to govern their disputes. The second reason for failed joint ventures inadequate capitalization. Joint ventures are typically allocated a fixed amount of capital, based on the estimated funds necessary to accomplish the joint venture's stated goals. Unfortunately, things always cost more than expected, and when the money runs out, the fighting begins. Therefore, it is critical that any plan provide not just for the current capital requirements of the venture, but for future or excess requirements. These issues are much easier to resolve at the joint venture's inception, when everyone is still friendly and excited about the project.

Spranger (1991) further argues that every project needs a leader. Too often, joint venture partners insist on sharing the leadership role. When the parties disagree, a stalemate ensues. The parties should agree from the beginning who will have day-to-day operational control of the project (or different parts of the project). Agreement should only be required in cases of fundamental decisions—for example, a sale or other disposition of the joint venture or its assets, the incurrence of debt, or the admission of a new partner. Even in those situations, the governing document should provide for a method of dispute resolution in the event of a stalemate (a suggested provision might be one which forces one party—usually the one with the higher offer—to sell its interest to the other).

Many companies enter into joint ventures looking for a quick profit. When that profit is not realized, or is not realized as quickly as expected, they lose interest. Having a comprehensive plan of joint venture, with well-defined goals, duties and responsibilities, as well as a timeline and system for measuring success, is critical to keeping both sides in the game. A joint venture represents the merger of two or more companies, much like an acquisition. Therefore, in evaluating joint venture partners, companies should perform the same compatibility and integration analysis they would do on an acquisition target, including a thorough evaluation of corporate culture, management style, personnel, employee benefits and IT systems (Spranger, 1991). Opposites may attract, but unless they find a way to blend their differences, their joint ventures are likely to be unstable. Joint ventures present exciting opportunities for companies to expand their business horizons. The companies that successfully capitalize on these opportunities are those who approach joint ventures with proper planning and commitment.

1.1.3 Addressing Joint Venture Challenges

Joint ventures create a new form of accountability between their members which rests primarily on trust. Where there is mistrust or hostility between some or all of the partners, then the effective operation of their partnership may be difficult to achieve (Bennett et al., 2004). When disagreements arise, they need to be resolved as quickly as possible. Trafford and Proctor (2006) argue that addressing joint venture challenges can be viewed around five main themes including: Communication, openness, planning, ethos and direction.

An awareness of communication processes is essential within joint ventures if maximum efforts are to be coordinated and directed towards the success of the joint venture (Mohr and Nevin, 1990). Jobber (1995) suggests that internal marketing is an important implementation tool. It aids communication by informing and involving all staff in new initiatives and strategies. According to Kanter (1999), effective joint venture requires connections at three levels across collaborating organizations, represented by continuing contact among: top management to develop broad goals and monitor progress; middle managers to develop plans for joint activities; and operational personnel, who carry out the day-to-day work of the joint venture. Openness is considered a prerequisite for joint venture success and lack of trust is a major reason for joint venture failures (Peng and Shenkar, 2002). The implication is that there is a need to appreciate that trust and control are inextricably interlinked with risk in joint ventures. Partner firms need to manage this risk adequately by understanding the conjoint roles of trust and control. The establishment of a new relationship between members of the organization at all levels – a relationship based on trust – is an issue that is important to addressing joint venture challenges (Handy, 1995).

According to Gomes-Casseres (2000), strategic planning process when managed well, can create tremendous value. At the wrong time and when managed poorly, they can be costly distractions. Parkhe (1993) and Kogut (1998) observe that often the good intentions and rational motives behind these joint ventures are not congruent with the strategic direction of either firm on its own, let alone the strategic direction of both in unison. Planning enables co-ordination among the partners to facilitate priority setting and enhance flexibility

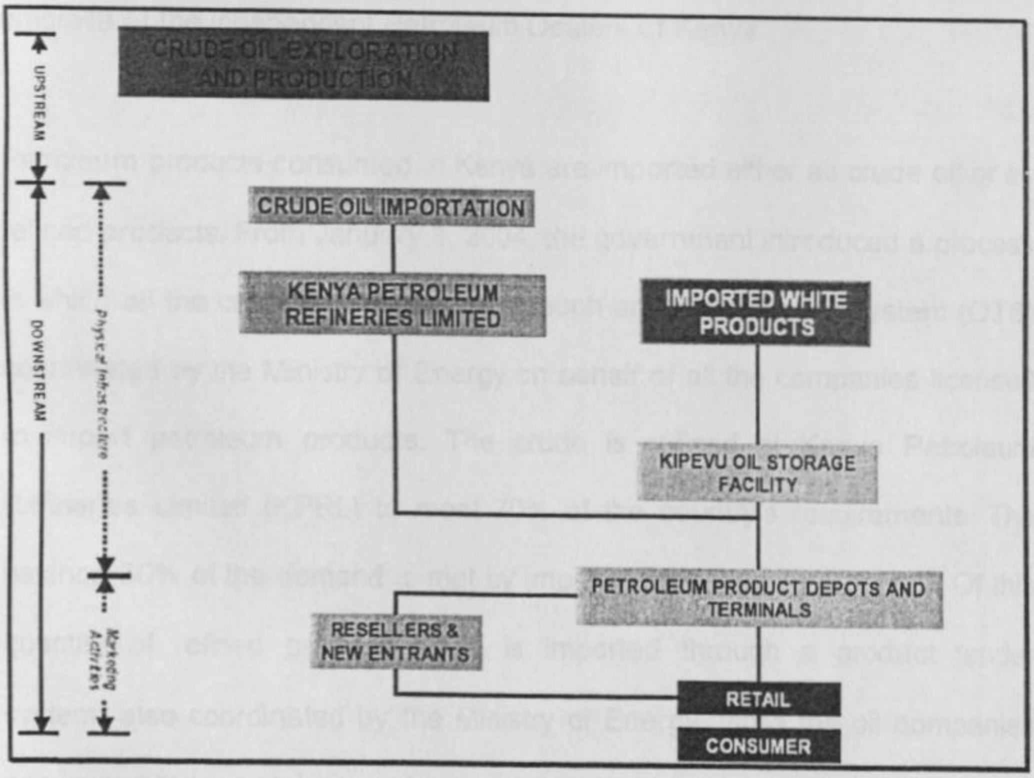
Ethos is the characteristic spirit or attitudes of people (Webster, 1992). It comes very much to the fore in joint ventures when the co-operating firms continue to be independent organizations and a new situation appears in which an interaction is established between two firms with different organizational cultures. This usually implies different leadership styles and different objectives, which may lead to lack of trust between the parties and to conflicts that may arise when the time comes to make decisions (Buono, 1991). Buono (1991) argues that deliberate efforts must be made to avoid a feeling of "lack of identity" amongst staff working for the joint venture company. Indeed, the identity of the joint venture should allow members to speak about themselves as an organization not only to themselves but also to others.

According to Hoffmann and Schlosser (2001) and Inkpen and Roos (2001), the participation of senior managers should go beyond the formulation of a strategy based on joint ventures. These managers should personally take part in the co-operative management process and show their commitment and enthusiasm both to and in the operation of the joint venture. Strategic leadership refers to the ability to articulate a strategic vision for the organization, or a part of it, and to motivate others to buy into that vision (Hill and Jones, 2001). Joint venture partners must work extremely hard at understanding each other, developing common objectives, and being truly committed to achieving a mutually desired and acceptable outcome. Otherwise, the relationship will never truly succeed. The key to making joint ventures work comprises common sense, trust, open communication, the right environment, and a good plan and strong leadership.

1.1.4 Petroleum Industry In Kenya

Kenya is a net importer of petroleum products used widely in the productive sectors of the economy. Figure 1 below shows a broad activity perspective, in which the petroleum industry in Kenya generally consists of upstream and downstream segments (Njoroge, 2007).

Figure 1: Activity Outline of the Kenyan Petroleum Industry



Source: Njoroge (2007)

The upstream segment involves the exploration and production of oil. It ends at the point where the crude product is delivered to an export terminal in the country of production. The downstream segment begins at the loading port and ends at the point where the consumer purchases petroleum products at the retail outlet. It includes shipping, refining, pipeline transport, and retail stations. Multinational oil companies currently dominate oil marketing in Kenya and these include: Kenya Shell, Kenol/Kobil, Caltex Oil, Total and Mobil Oil (Renamed Tamoil). There are other smaller oil companies operating in Kenya, such as National Oil Corporation of Kenya (NOCK), Engen, Dalbit, Gapco, Galana, Triton, Petro Oil, Fossil, Oilcom, Hashi Empex, Hass, Global, Addax, Bakri, MGS, Metro, Somken, Gulf Oil and others. There is also a network of independent service station dealers that operate under the umbrella of the Independent Petroleum Dealers of Kenya.

Petroleum products consumed in Kenya are imported either as crude oil or as refined products. From January 1, 2004, the government introduced a process in which all the crude oil is imported through an Open Tender System (OTS) coordinated by the Ministry of Energy on behalf of all the companies licensed to import petroleum products. The crude is refined at Kenya Petroleum Refineries Limited (KPRL) to meet 70% of the country's requirements. The balance 30% of the demand is met by importation of refined products. Of this quantity of refined products, 70% is imported through a product tender system, also coordinated by the Ministry of Energy, while the oil companies can import the remaining requirement on their own. At the time of deregulation of the petroleum, industry in October 1994 KPRL was accorded protection from refined product imports through imposition of a mandatory minimum base load processing of 1.6 million tones per year. This quantity is shared among all the licensed importers in proportion to their market shares. At that time, this crude quantity was enough to meet 85% of the country's requirement of LPG. In addition, suspended duty was introduced on imported products as further protection to KPRL (Njoroge, 2007)

1.1.5 Oil Terminal Joint Ventures in Kenya

An oil terminal is a facility used for the purpose of receiving, storing and handling petroleum products. Petroleum products imported as crude oil are refined at KPRL and thereafter pumped via pipeline to the oil terminals. Petroleum products imported as refined products are either discharged from oil tankers (ships) berthed at the port of Mombasa directly into the oil terminals or into Kenya Oil Storage Facility (KOSF). From KOSF tanks, the refined petroleum products are pumped via pipeline (operated by Kenya Pipeline Company, KPC) to oil terminals located upcountry or in Mombasa. Oil terminals are equipped with loading facilities used for loading trucks for onward delivery to retail stations and to commercial customers.

In Nairobi and Mombasa, the major companies own most of the oil terminals and they give throughput hospitality to the independents. In Nairobi, the Government has constructed a common user oil terminal, which is managed by the National Oil Corporation of Kenya (NOCK). In Nakuru, Kisumu and Eldoret all loading facilities are owned and operated by the Kenya Pipeline Company (KPC).

There are two oil terminal joint ventures in Kenya (Njoroge, 2007). These include one between Caltex, Total and Kenol/Kobil with operations Nairobi and Mombasa, while the second one is between Kenya Shell Ltd & Mobil Oil Kenya (renamed Tamoil Kenya Ltd on 9th October 2006 when Tamoil Africa Holdings acquired Mobil Oil Kenya from ExxonMobil). The oil terminal joint ventures entail joint operation of the terminals in order to achieve efficiencies in the receipt, joint storage and handling operations of product of the partners at the terminals. Management of the oil terminal joint ventures is on rotational basis where one of the parties becomes the managing partner of the joint venture oil terminal for a specified period.

1.2 Statement of Research Problem

There has been extensive growth of joint ventures during the past two decades in response to industry deregulation, globalization, technology changes and an increasing emphasis on product innovation (Harrigan, 1985). Bamford *et al* (2004) observed that More than five thousand joint ventures, and many more contractual alliances, had been launched worldwide since 1999. Since dependence on joint ventures has grown significantly in recent years, partnership formation with external parties for variety of reasons has become a central strategic activity for many firms across multiple industries (Badaracco, 1991; Gulati, 1998). These firms must however overcome the many challenges inherent in implementing joint ventures and alliances. Bamford *et al* (2004) assessed the performance of 49 joint ventures and alliances in 1991 and found that only 51% were "successful"—that is, each partner had achieved returns greater than the cost of capital. A decade later, in 2001, they assessed the outcomes of more than 2,000 alliance announcements—and the success rate still hovered at just 53%.

Several authors have identified potential problems and challenges that might lead to failure in joint ventures. Bamford *et al* (2004) have highlighted various reasons for joint venture failure including: wrong strategies, mistrust, incompatible partners, inequitable or unrealistic deals, weak management, inadequate launch planning and execution among others. Harrigan (1985) points out that many joint venture failures can be attributed to compatibility problems between the firms. These might include partners of unequal size, joint venture experience, or managerial style. Other incompatibilities include staffing errors and the lack of participatory management. Spranger (1991) argues that most joint ventures are doomed to failure from their inception due to insufficient planning, inadequate capitalization, lack of leadership, lack of commitment and cultural and ideological differences.

This study sought to determine what challenges are faced by oil terminal joint ventures in Kenya and to establish approaches employed to overcome the challenges. Oil terminal joint ventures in Kenya has been selected given the high significance of developments in the oil sector and their impact on the overall economy.

1.3 Research Objectives

(i) To determine what challenges are faced by oil terminal joint ventures in Kenya

(ii) To establish approaches employed to overcome the oil terminal joint venture challenges

1.4 Importance of the Research

Understanding the challenges faced by oil terminal joint ventures in Kenya is relevant to industry in general and to oil sector practitioners in particular as it provides local framework to evaluate future negotiations, launch planning and execution of joint ventures in the industry.

The study is important to scholars and practitioners in Strategy as it contributes to the body of knowledge on joint ventures management. It is hoped it will be used as a reference and will stimulate further research.

The study is also important to policy makers and the general public given the high significance of developments in the oil sector and their impact on the overall economy.

1.5 Scope of the Study

This study sought to determine the challenges faced by oil terminal joint ventures in Kenya and to establish approaches employed to overcome them.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theories of Inter- organizational Co-operation

Firms enter into joint ventures for various reasons. Although there are several economic theories to explain inter-firm cooperation, such as agency theory, relational contracting theory, political economy theory, etc., current theories provide at least two main explanations for alliances, the resource-based theory and the transaction-cost theory (Hoffmann and Schlosser, 2001). However in this literature review, four theories have been identified to offer a systematic overview of the main theories that contribute to our understanding of the subject. The four theories include strategic management theory, resource based theory, transaction cost theory and network theory. Each of these theories explains the motive, organization and form of the inter-organizational relationship differently.

Strategic management theory emphasizes that firms enter into co-operative relations in order to achieve expansion and growth as well as to secure efficiencies of the kind identified by transaction cost economics. The conceptual frame of reference of strategic management theory consists of a large and growing body of contributions from industrial economists (Porter, 1990), organizational theorists (Mintzberg, 1987) and management theorists (Ansoff, 1965). Hymer (1972) was one of the firsts to apply market power theory to the study of co-operative strategy that distinguishes offensive from defensive coalitions. Offensive coalitions are intended to develop firm's competitive advantages and strengthen their position by diminishing other competitors' market share or by raising their production and/or distributions costs. Defensive coalitions mainly focus on raising the entry barriers to a certain market. Porter and Fuller (1986), in fact, qualified Hymer's argument by indicating that offensive coalitions can have a negative effect through reducing the competitor's adaptability in the long run. Among the factors that serve as entry barriers are economies of scale, switching costs, capital requirements, knowledge and learning, proprietary law, product design, brand identity and dense business network relationship with supplier and customers (Porter, 1990). Firms that have a weak position in the market in order to defend themselves against dominant players may also seek defensive coalitions.

Porter (1990) argues that the relative position which firms occupy within their industry's structure determines the generic strategies, which are the most viable and profitable for them. Firms choose to enter into some kind of co-operative relationship with other firms to acquire competencies that the firm lacks: learn how to operate in new markets whether domestic or foreign, to acquire resources, to diversify into new business; to capitalize on economies of scale; or to circumvent trade or foreign investment restrictions. Porter (1990) also states a co-operative strategy might offer a mutually advantageous opportunity for collaborating firms to modify the position, which they occupy within their industry. In other words, it may enable them to increase their market power.

The transaction-cost theory is another perspective to explain firms' activities in joint ventures. Transaction-cost theory recommends choosing the organization model that minimizes the sum of fixed and continual transaction costs, and firms form joint ventures if this minimization is achieved through them. Hennart (1988) shows that the transaction-cost framework can provide a unifying paradigm that accounts for the common element among seemingly dissimilar joint ventures and provide new insights into their complex phenomena. Kogut (1998) discusses the motivation of joint ventures from the perspective of transaction-cost theory, and explains why this particular mode of transaction is chosen over such alternatives as acquisition, supply contract, licensing or spot market purchase. Based on the perspective of transaction-cost theory, Aubert et al. (1996) identify a few key attributes of transaction for joint ventures, which are the specificities of required assets, the level of uncertainty, the difficulty of performance assessment, and the frequency of transaction. They argue that joint ventures dominates other governance mechanism for the transaction with low-frequency, low-level of uncertainty and high asset specificities, and test these explanations with empirical analysis of outsourcing in information system activities.

More recently, organisational theorists like Thorelli (1986) and Jarillo (1988) adopted networks as yet another frame for the analysis of economic organization. Jarillo (1988) states that by maintaining, modifying and transforming multifaceted inter-organizational relationships, organizations can construct their own environment and markets as they seek allies to which they can bond for periods of mutual benefit. Networks are seen as arrangements between "Markets and Hierarchies" (Thorelli, 1986). In this view networks are considered as the relationships of power and trust through which organizations either exchange information and resources (Thorelli, 1986), or take advantage of economic efficiencies (Jarillo, 1988). In such analysis the network has been viewed as an organizational actor, implying that strategic management of the network yields benefits to be distributed among the network members. Kamann (1993) describes the essence of networks as follows:

"(1) *No actor can fulfill his dreams without the assistance of other actors: this puts him in paradoxical position: he either remains independent (and sub optimal) or he increases his dependence (and improves his performance). (2) Relations are based on mutual trust and are the subject to social cohesion. But can change into opportunistic behaviour and betrayal. (3) The result of network behaviour is a synergetic surplus. (4) The nature of a relationship between two actors influences all other relations in the network. (5) Each actor tries to maximise his share of the synergistic surplus. (6) Each actor carefully balances dependence and freedom in order to improve the perceived optimal mix of effectiveness, efficiency, profitability and continuity."*

The upshot of the above proposition is that if a network view is adopted, considerable change may be required in the way a firm allocates its resources, structures its activities and relates itself to other organizations. Concerning the advantages of economic networks, the general consensus is that they provide inter-firm co-ordination coupled with flexibility; they guarantee the effective and reliable exchange of strategic information with the network with little investment and resources from each member of the network; they minimize the risks associated with the development of resource intensive technologies and market entry; and they allow for the pooling of human resources in high demand, high skill areas (Dunning et al., 1998).

Summary of Theories of Inter-organizational Co-operation

Dimensions for Comparison	Transaction cost theory	Resource dependence theory	Network theory	Strategic management theory
Key assumptions derived by	-Industrial organisation -Sociology -Economics	-Organizational sociology -Political science -Management science	-Organisational sociology -Anthropology -Management science	-Industrial organization -Management theory
Key questions	-How do characteristics such as asset specificity, uncertainty, and frequency affect the transaction costs associated with engaging in different forms of inter-organizational linkages?	-How does the formation of inter-organizational linkages help an organisation acquire resources and manage uncertainty?	-What are the interplay's relationships between activity, resource and actor layers in business relationships, and how do network firms interact and adapt to changes?	-What are the competitive benefits of creating alliances?
Reason why linkages are created	-To reduce transaction costs	-Maximise power to obtain resources and manage uncertainty	-Resource and knowledge acquisition motivated by social relationship, effectiveness and efficiency	-To maximise profit and improve strategic posture (Competitive advantage) -Access to competencies and or capabilities -Knowledge acquisition and learning
Basic assumptions	-Bounded rationality -Opportunistic behaviour	- No organisation is self contained - The primary goal of organisations is to maximise power - The Environments of an organisation is uncertain	-Transactions are embedded within networks of social relationships -One party is dependent on resources controlled by another	-Systematic and stable differences across firms exist in the extent to which they control resources and influence strategic behaviour -Differences in firms resource endowments cause performance differences -Firms seek to maximise their economic performance

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Dimensions for comparison	Transaction cost theory	Resource dependence theory	Network theory	Strategic management theory
Unit of Analysis	-Transaction	-Inter-organizational linkage -Interdependencies	-Network	-A dyadic relationship
Examples of relevant literature	-Coase (1937) -Williamson (1975, 1980)	-Pfeffer and Salancik (1978)	-Burt (1980) -Nohria ((1992) -Johansson (1986)	-Porter (1980, 1985) -Rumelet (1974) -Wernefelt (1984) -Mahoney (1992) -Hamel and Prahalad (1990)
Main contribution	-Answers the fundamental question why firms exist -Opened a new approach for organisation theorists -Useful in choosing a governance structure for a specific transaction. -Introduced hybrid relationships as a governance structure for specific type of transactions	-Resources are important in determining firms behaviour -Shows the importance of dependence and its consequences.	-Has broader unit of analysis -Useful in designing and analysing network relationships - A tool for managing relationships	- Infused strategy into economics and realised a greater coherence in the strategy field -Shows how cooperation leads to competitive advantage
Main criticisms	-Focuses on cost minimisation -It neglects the role of social relationships in economic transactions. -Individuals may not always behave opportunistically even if conditions permit such behaviour - Learning and experience with a particular exchange partner can reduce the need for more governance mechanisms in subsequent transactions.	-Neglects co-operative ties with actors one have no direct dependence. -Neglects the influence of bargaining power	-Normative theories of networks have been neglected -Ambiguity in the concept used -Difficult in setting the boundaries of the network	-There is often more heterogeneity in the performance of firms within a single industry than there is heterogeneity in the performance of firms across industries. -Socially organised relations are not considered as important and are often interpreted as collusion reducing the level of competition

Source: Auster (1994)

2.2 The Concept Of Joint ventures

Joint venture involves organizational arrangements between firms. Gulati (1998) states that from a strategic standpoint, some of the key facets of the behavior of firms as it relates to joint ventures can be understood by looking at the sequence of events in joint ventures. This sequencing includes the decision to enter a joint venture, the choice of an appropriate partner, the choice of structure for the joint venture, and the dynamic evolution of the joint venture as the relationship develops over time. Gulati (1998) argues that from the issues, related to the start and joint venture building, emerge relevant questions: Which firms enter joint ventures and whom they choose as partners? What types of contracts do firms use to set up appropriate safeguards in the joint venture? How do the joint venture and the partners evolve over time? Firms influence the joint venture formation as much as the joint venture influences the firms that formed it.

2.3 Factors affecting joint ventures formation rate

Factors that affect joint ventures formation rate have been found on industry and firm level (Gulati, 1998). On the industry level of analysis, the degree of competition and the development stage of the market and technology are discussed. Eisenhardt and Schoonhoven (1996) argue that especially in markets with many competitors and in markets that are in an emergent stage, firms exhibit a higher propensity to enter into joint ventures. Burgers, Hill and Kim (1993) link joint venture formation with environmental uncertainty. They argue that joint ventures are a means to reduce environment uncertainty. They further argue that perceived uncertainty should be more important in affecting behavior than a pseudo-objective measure. To assess perceived environment uncertainty they define different sources for uncertainty. The first source is general uncertainty about the impact of a future state of the environment or environment change on the organization. The second source of uncertainty is the technological environment. The third source of uncertainty is growing demands for internationalization. In an empirical analysis, they find that the perception of the above three sources of uncertainty is positively related with joint venture use.

A larger number of factors have been studied on the firm level. Among the variables studied is size of the firm, age, competitive position, product diversity, financial resources, and network embeddedness. The relationship between age of the firm and joint venture formation is somewhat unclear. While a negative relationship has been hypothesized to the liability of newness, also arguments for a positive relationship exist. Young firms might show higher rates of joint venture formation, as joint ventures with established firms might be one means to create legitimacy (Baum & Oliver, 1991; Stuart, Ha & Hybels, 1999). Firm size has received attention from a large number of scholars (Burgers et al., 1993; Gomes-Casseres, 1997; Shan, 1990). Gomes-Casseres points out that not so much absolute size is important for the partnering behavior of small firms but rather the relative size in comparison with direct competitors. Gomes-Casseres (1997) argues that firms that are large compared to their direct competitors and dominate their market segment have less incentive to seek joint ventures.

Eisenhardt and Schoonhoven (1996) argue that firms are more likely to form joint ventures if they are in a vulnerable strategic position. They define strategic position through the number of competitors, the stage of market development, and the strategy of the firm. Stuart (1998) argues that crowdedness and technological prestige represent one way to define the strategic position of the firm. Firms that compete in crowded technology areas, that is in technology domains with many firms working on closely related or overlapping problems, show a higher propensity to enter into joint ventures. Also firms that are technologically prestigious, show high joint venture formation rates.

The strategic position of a firm can be defined as well as the resource position of the firm. Sapienza et al. (1997) argue that firms that posses resources that provide competitive advantage are more likely to be able to enter into joint ventures. Firms that possess resources that are rare, valuable, non-substitutable, and not easily imitable (Barney, 1991) are more likely to be attractive joint venture partners. The first three characteristics make the firm more valuable for the partner. They also suggest that the firm will be a more stable partner. The limited imitability of the resource or capability reduces the threat of loosing the advantage from it. Shan (1990) argues that firm with a high degree of product diversity are expected to form more joint ventures. However she finds no empirical support for the relationship. Gulati (1998) finds firm liquidity a significant predictor of joint venture formation.

The existing network of relationships a firm is embedded in might affect the subsequent joint venture formation. Several important arguments have been made in this respect. Gulati (1998) argues that it is the social context formed by the existing network of relationship that makes the partner aware of joint venture opportunities. Social networks provide information about partners and create reputation circuits. The social context might as well influence decision making on joint venture formation. Gulati (1998) argue that for instance the social network of board interlocks can influence the propensity to form joint ventures. Walker et al. (1997) argue that existing relationships constitute social capital for the firm. To preserve this capital the firm has to continue and renew existing relationships. The level of social capital a firm has built is related with the joint venture formation and vice versa. While the construct of social capital is multi-dimensional, Burt (1992) develops a somewhat different argument based on the structure of the existing relationships. He argues that different network structure provide differing benefits for the firm. Positions that connect otherwise not connected networks might be advantageous. Thus, joint ventures formation is related to the existing network structure.

2.4 Performance Of Joint ventures

Numerous studies have reported dramatically high failure rates of joint ventures, and several practitioners have sought to identify the magical formula for joint venture success (Bleeke and Ernst, 1991). This wish list includes: flexibility in management of the joint venture, building trust with partners, regular information exchange with the partners, constructive management of conflict, continuity of boundary personnel responsible for the interface between the firm and the joint venture, managing partner expectations, and so on. Brockhoff and Teichert (1995) point out that in joint ventures, performance measurement is extremely difficult for several reasons. First of all, several groups of objectives exist. Further, joint ventures can be analyzed on different levels of analysis. For instance, one can analyze the success, on the project, on the relationship, or on the firm level. While a relationship might be successful if analyzed on one level, results might change if analyzed on a different level. Therefore, objective performance criteria such as the longevity of a relationship are too restricted to reflect if a joint venture has achieved its aims. Mitchell and Singh (1996) further support the argument that many performance analyses carry important shortcomings. Often the influence on corporate performance is used. This might conceal business unit level influences. If performance is measured by profitability the results might be biased because the sample is limited to firms that survived.

Longevity is one of the performance criteria that have dominated early research on joint ventures. For instance, Parkhe (1993) argues that longevity is an indicator of success for many joint ventures. Several other studies (Harrigan, 1985) have employed termination of joint venture as a performance criterion. These studies have provided valuable insights. However, several authors warn (Gomes-Casseres, 1987; Gulati, 1998; Saxton, 1997) not to equal joint venture termination with failure. Joint ventures that have reached their strategic objective might be terminated and still be considered a success. Often joint ventures are entered into for a limited time period or for reaching a predetermined objective. Especially in the latter case, termination might be a sign of success rather than failure. In other instances, a joint venture may simply be a transitional arrangement that the parents plan to terminate when their objectives are met or when they have valuable new information that makes viable an acquisition or divestiture of that business (Kogut, 1998; Bleeke and Ernst, 1991). In some instances, the transformation of a venture may actually indicate successful adaptation to environmental shifts (Gomes-Casseres, 1987). Also, not all ongoing joint ventures are necessarily successful, and some may be continuing more out of inertia or the high exit costs associated with dismantling it than because of the inherent success of the partnership.

One of the vexatious obstacles to studying performance, and also one of the problems with the many studies that have reported high failure rates for joint ventures, is measuring performance itself (Khanna *et al.*, 1998). Given the multifaceted objectives of many joint ventures, performance can be difficult to measure with financial outcomes. Furthermore, in most cases, such measures simply don't exist. A further complication results from the dyadic nature of joint ventures. Sometimes performance is asymmetric: one firm achieves its objectives while the other fails to do so. For instance, several cases have been reported of joint ventures, in which one partner had raced to learn the other's skills while the other did not have any such intentions (Hamel, 1993; Khanna *et al.*, 1998). Despite these measurement obstacles, researchers have gone beyond the initial efforts that equated joint venture termination with failure, to try to uncover some of the factors associated with the success of joint ventures. These require detailed surveys or careful fieldwork on joint ventures that uncovers the multiple facets of joint venture performance and considers the perspectives of all the partners in the joint venture.

In a set of pioneering studies, Harrigan (1985) used both archival and survey data to assess factors that might influence the performance of joint ventures, with performance measured both by the survival of the joint venture and by participants' assessment of success. More recently, marketing and strategy scholars have turned to even more extensive surveys, which have been administered to the individual managers responsible for the joint venture from each partner (Parkhe, 1993). Such approaches enable the collection of a host of measures, subjective and objective, on which performance can be assessed, as well as an examination of dyadic asymmetries in perceptions.

Despite the difficulty to measure performance of joint ventures, several studies have reported rather mixed results of joint venture activity with failure rates ranging from 50-80% (Geringer & Herbert, 1991). In a significant number of joint ventures, at least one partner shows dissatisfaction with the joint venture results. Khanna, et al. (1998) argue, that part of this dissatisfaction might be the result of our insufficient understanding of the dynamics of joint ventures. Also Borys and Jemison (1989) point out that the value creation mechanisms are often ill understood by managers. Partner reputation (Saxton, 1997), multilateral resource contributions from all involved parties (Hatfield and Pearce, 1997), partner similarity and related diversification (Harrigan, 1988; Saxton, 1997) result in higher partnership benefits. On the operational management level, management flexibility, trust between partners, regular information updates, constructive feedback mechanisms, continuity of personnel at the interface between joint venture and firm contribute to joint venture performance (Bleeke and Ernst, 1991).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was conducted through case study of two oil terminal joint ventures in Kenya. The two oil terminal joint ventures included one between Caltex, Total and Kenol/Kobil with operations in Nairobi and Mombasa, while the second one was between Kenya Shell Ltd & Mobil Oil Kenya (renamed Tamoil Kenya Ltd on 9th October 2006 when Tamoil Africa Holdings acquired Mobil Oil Kenya from ExxonMobil) with operations in Nairobi. A case study is a comprehensive study of a unit. The unit may be a person, a group, a social institution, a district or a community (Young, 1960). A case study is best suited for the collection of information for the purpose of obtaining in-depth contextual analysis. It is a very powerful form of qualitative analysis and involves a careful and complete observation of a unit. It is a method of study in depth rather that in breath. This research design has successfully been used by similar studies (Koske, 2003; Muthuiya, 2004)

3.2 Data Collection

Both primary resources and secondary resources were used because this is an important approach in a case study design, which requires that several sources of information be used for verification and comprehensiveness (Cooper and Schindler, 2003). The primary data used in this study came from questionnaires administered to members of joint venture steering team and terminal management of the oil terminal joint ventures. These were considered key staff involved in the performance of the oil terminal joint ventures at different levels and stages and therefore adequate for purposes of the research objective. Questionnaires consisting of open-ended and closed-ended questions, designed to capture relevant data and information such as joint venture partner selection, objectives, planning, governance & implementation, performance as well as changes, were sent to the respondents in advance to assist them reflect on key issues. Two sets of questionnaires, one for members of joint venture steering team and the second one for joint venture terminal management, were used as a way of ensuring respondents are asked questions within their scope and purview.

In order to reduce the reliance on respondents and mitigate the risk of non-response, secondary sources were also employed. Secondary data from website, published articles in print media and company reports were used. Using secondary resource has both advantages and disadvantages. One of the biggest advantages of secondary resource is availability. For example, when we wanted to get more details about the background of the investigated companies, we obtained the valuable information from the companies' website quickly and easily. There are two points commonly debated concerning the deficiency of the secondary resource: one is if the data is credible and another is if the data is outdated. In order to increase the reliability of the secondary resource in this study, we used those secondary data, which came from authorized departments as much as we could, for example, the websites of companies themselves and authorized annual reports.

3.3 Data Analysis

The data collected was qualitative in nature and the responses provided by respondents were analysed using content analysis to identify the key themes. Content analysis is a systematic qualitative description of the composition of the objects or materials of study. It involves observation and detailed description of objects, items or things that comprise the study (Mugenda, 1999). Content analysis has involved the analysis of meanings and implications emanating from respondents information coupled with documented data regarding joint ventures so that conclusions drawn can be documented in line with research objectives. The data was compared with theoritical approaches cited in literature review.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This study had two objectives. The first one was to determine what challenges are faced by oil terminal joint ventures in Kenya, and second was to establish approaches employed to overcome the oil terminal joint venture challenges. This chapter presents the findings of the study with regards to these objectives.

4.2 Profile of the Oil Terminal Joint Ventures

Research findings indicate the need to enter into oil terminal joint ventures was mainly motivated by the need by the partner companies to lower operational costs through optimized utilization of the terminals. This was further reinforced by the fact that capital investment in oil terminals as well as the cost of maintenance is very high hence the need to pool resources. Multinational oil companies have been facing a long running public perception in the country that they operate as cartels and rake in millions of dollars in profits at the expense of public interest. Faced with this dilemma, and in view of increasing costs and competition as a result of liberalization of the sector in 1994, the oil companies must continually re-look at their business models with a view to being more efficient and hence maintain competitive advantage. From January 1, 2004, the government introduced a process in which all the crude oil is imported through an Open Tender System (OTS) coordinated by the Ministry of Energy on behalf of all the companies licensed to import petroleum products. This implies oil companies obtain bulk of their imports at more or less the same cost and therefore opportunity to gain competitive advantage through low costs is generally limited to product storage and distribution activities.

Oil terminal joint venture between Caltex, Total and Kenol/Kobil dates back to 1973 when Caltex, Total and Mobil entered into an agreement to operate joint oil terminal in Nairobi. This followed directive by the government that required all oil terminals, most of which were within two kilometers from city center, to be relocated further away into industrial area for safety and planning reasons. Instead of each constructing separate depot, Caltex, Total and Mobil opted to construct a joint terminal as a way of mitigating the prohibitive costs associated with rebuilding new oil terminals at the new designated location. Kobil replaced Mobil as a partner in the joint venture in 1984 when it acquired Mobil interests following exit of the later from Kenya (N/B: Mobil Oil Kenya Ltd later re entered Kenya in 1996 when it acquired Esso Kenya's interests in the country). Kobil subsequently entered into a joint operations and management agreement with Kenol in 1986 and became known as Kenol/Kobil, hence the oil terminal joint venture membership became Caltex, Total and Kenol/Kobil. In 2002, the partners extended the scope of their agreement to include operation of joint terminal in Mombasa. Management of the joint venture terminals is rotational and each of the three companies manages for pre-determined three-year period before handing over to another partner. Kenya Shell Ltd & Mobil Oil Kenya (renamed Tamoil Kenya Ltd) on the other hand entered into a joint venture agreement to operate joint oil terminal in Nairobi effective 2003. The joint venture entailed conversion of Kenya Shell's Nairobi terminal to joint venture terminal and closure the adjacent Mobil's terminal.

The joint venture was planned to last twenty years and Mobil was to manage it for the entire period. However, both parties mutually terminated the joint venture in August 2007 following acquisition of Mobil Oil Kenya Ltd from Exxon Mobil by Tamoil Africa Holdings of Libya in 2006.

The oil terminal joint ventures, whose scope entail joint operation of the terminals in order to achieve efficiencies in the receipt, joint storage and handling operations of product of the partners at the terminals, are governed by an agreement that was signed prior to commencement of the partnerships. Based on the agreements, steering committee was established to exercise overall management, supervision and control of the joint terminal management. The terminal management is responsible to the steering committee for the day-to-day management and running of the joint terminals. Parent company pays salary to terminal employees directly then they later debit the joint venture partners at specified periods in line with pre-agreed criteria and proportions.

4.3 Oil Terminal Joint Venture Challenges

Respondents indicated key considerations in partner selection included HSE (health, safety and environment) standards, corporate culture, partner size, operational execellence, staff skills among others. This criteria interestingly presented the initial challenge that confronted the oil terminal joint venture partners as they embarked on performing compatibility and integration analysis including evaluation of corporate culture, management style, personnel, employee benefits and IT systems. The partners generally represented well-known and strong brands on the international scene and cooperated locally in various areas including collective bargaining agreement negotiations with industry workers union. However, substantial critical information such as financials and strategies was not quickly unavailable to the deal makers, partly because of regulatory constraints on sharing information before a deal is actually consummated and the need for each partner to protect its strategically critical information since the anticipated joint venture was going to be limited in scope to terminal operations only. This was further compounded by the initial absence of a clear decision hierarchy for the joint ventures hence the need for continuous and wide consultations at global level for key approvals.

Research findings further reveal that another challenge that confronted the oil terminal joint venture partners was the tight timetable for the joint venture implementation. One of the respondents indicated that having a comprehensive plan of joint venture, with well-defined goals, duties and responsibilities, as well as a timeline and system for measuring success, is critical to keeping the joint venture effectively functional. Such detailed planning requires sufficient time to conduct due diligence, address legal as well as regulatory requirements, in addition to working out financial as well as human resources needs. However, for example the project teams responsible for actualizing the joint venture between Shell and Mobil had only three months and had to work under very tight deadlines in order to get the joint ventures running. This was partly due to the fact the joint venture partners are multinationals and major decisions concerning the joint ventures, including implementation timelines, were agreed at regional or global level and local joint venture teams were subsequently expected to deliver within these timelines. Additionally, various key stakeholders, including executives of each participating company, lawyers and advisors, had a say in the outcome during the pre-deal phase. With so many people in the picture, arriving at consensus speedily was a challenge and this therefore meant the joint venture project teams had very limited time to iron out unforeseen and often tedious details that were encountered at country level.

Generating trust among joint venture partners was also cited as another significant challenge especially during the initial stages of the joint ventures implementation. Trust is crucial to overcoming competitive rivals' initial suspicions about possible partner opportunism, which may prevent effective implementation of the joint venture. There was initial lack of openness and trust between staff of the joint venture partners, especially those staff who were not in the joint venture planning and implementation teams. This was manifested through "blame" attitude that seemed to be pervasive in the initial stages of the joint ventures where incumbent terminal managers were perceived to favor their parent organisations interms of prioritising truck loadings and hence servicing their customer first.

The study indicates that yet another challenge faced by the oil terminal joint ventures was in ensuring that timely and consistent information, which was necessary for the accurate understanding of reasons for the joint ventures, was available to all staff of the joint venture partners. Communication and a level of interpersonal understanding appeared to occur well among a small group of people, mainly joint venture steering team and staff who were directly involved in the implementation of the joint venture. Others outside the immediate circle did not share this and hence tended to be overly critical of the joint venture, driven by the perception the other joint venture partners were benefiting more from the partnership. Motives were often misunderstood and that some staff had a tendency to assume the joint venture partners' motives. An awareness of communication processes is essential within joint ventures if maximum efforts are to be coordinated and directed towards the success of the joint venture. It is also essential in order to foster shared purpose and common understanding.

Respondents also indicated the other challenge faced by the joint ventures was that of capitalization. Imbalances in organizational power as indicated by disparities in the resources contributed and controlled by each partner organization, can impede trust creation due to the partners' unequal capacities to fulfill their obligations. To forestall this, the joint venture partners equalized assets at the joint terminals so that the partners had equal ownership; subsequent capital investments were to be made proportionately. The joint ventures were typically allocated a fixed amount of capital, based on the estimated funds necessary to accomplish the joint venture's stated goals. However, as the implementation took off, unforeseen capital expenditure requirements came up. For example, Kenya Pipeline Company capacity limitations resulted in supply constraints across the industry and this called for investment in at least two extra storage tanks at the joint terminals.

Construction of one ten million litres storage tank costs no less than Ksh forty million, the impact of such unanticipated capital requirements can thus be noted as very significant. Whereas it was much easier to resolve budgetary issues at the joint venture's inception, when everyone was still friendly and excited about the project, the additional unforeseen capital requirements presented significant challenge as the joint venture partners each had different priorities and approval protocols to secure the extra funding.

Another challenge faced by the joint ventures was as a result of external and market factors including product stock outs due to supply constraints by Kenya Pipeline Company (KPC) and KPRL. These factors disrupted the operational protocol as anticipated in the joint venture agreements. For example in 2006, the joint ventures experienced on average at least ten stock outs per month. If the joint terminal stocked out on petrol and diesel because KPC pumps had broken down, the partners would haggle on which product whose receipt from KPC they should prioritize since each partner had different priority based on their customers requirements. Quite often, under such circumstances, the good intentions and rational motives of the joint terminal manager were prone to negative judgment from either partner depending on whose preferred product had been prioritized for receipt.

The study also revealed cultural difference was another challenge faced by the oil terminal joint ventures, especially since co-operating partners continued to be independent petroleum marketing organizations each with different leadership styles and different objectives. For example whereas the joint venture partners generally shared the same corporate governance platform, corporate cultures within the different partner firms placed varying degree of weighting on safety, efficiency, ethics, corporate social responsibility, standardization, staff empowerment and reward system among others. This therefore meant the joint venture staff who had been seconded from different partner firms, if faced with similar scenarios, were inclined to make divergent decisions. For example, if a staff driven by very strong culture of safety from his parent firm sent away from the joint depot another partners' truck with worn-out tyres, an employee of the partner firm whose truck had been kicked out could potentially misinterpret the action as bordering on sabotage especially if corporate culture of his parent firm leaned more on efficiency as opposed to safety – first policy.

The study indicates another challenge faced by the oil terminal joint ventures was the differences in operating procedures and information system and processes among the joint venture partners. For example, whereas Shell had JD Edwards as its operating transaction system, Mobil had AccPac. This meant Shell trucks loading documents at joint terminal level had to be processed more than once, through the different information systems adopted by the partners for their transaction processing. This resulted in significantly low truck turn-around at terminal level (trucks were spending on average more than two and a half hours as opposed to the desired one and a half hours to enter the terminal and depart) hence lower operational efficiencies, contrary to projections in savings that had been factored-in based on anticipated efficiency levels.

Yet another challenge faced by the joint ventures was the human resources planning. Inevitably the joint ventures implementation resulted in redundancies especially at terminal level. The redundancies had to be eliminated, but whose staff was to go? Paradoxically, the joint venture implementation teams consisted of terminal managers of the partners whose jobs were on the line because inevitably only one terminal manager was going to be retained once the joint venture took-off.

Another unique challenge for the joint ventures was audit overload especially for joint venture terminal management who had to continually face audit teams from the joint venture partner firms. Audits have grown beyond simply complying with standards; it assists firms to manage risks and forces stakeholders to alter behavior in addition to acting as a tool of building trust. However as one respondent said, "the last thing you need is so many of these different audits from various partners that all you spend your time doing is looking at the results of audits and being audited and never actually doing anything! And there's a real risk of that. So it needs to be kept in proportion". The joint venture terminal management faced on average al least four audits annually.

Delays in intended benefits materialising was yet another challenge faced by the oil terminal joint ventures. This was partly as a result of external and market factors including product stock outs, which adversely affected projected joint venture benefits. For example, realized joint terminal unit costs may have been based on certain throughput volumes, which ended up being lower as a result of product stock outs. None of the joint oil terminals realized their projected savings in the first year of operations, even though these had been expected within six months of commencement.

4.4 Approaches used to address oil terminal joint venture challenges

In this section, we focus on the approaches used to address oil terminal joint venture challenges discussed in previous section. From the perspective of the respondents, identifying root causes of the oil terminal joint venture challenges is very crucial. As one of the respondents said, "Nothing sours an alliance faster than the notion that one party is giving everything while the other is getting a free ride. Both sides have to feel as if they're being treated fairly. The relationship must be developed to the point where both parties can be honest, regularly evaluate progress and offer recommendations for improvement." These comments capture the key issues that the respondents opined had to be dealt with and support the study findings on challenges faced by the oil terminal joint ventures as discussed in previous section. Respondents assigned more weight to factors that contribute to the success of joint ventures and argued that by deliberately working on these, most of the oil terminal joint venture challenges would be addressed in the process. These success factors includes commitment to the joint venture, communication, trust, managers working well together, having common goals, having benefits visible to those involved, the financial stability of the firms, keeping egos in check, each partner contributing a significant component to the alliance, a written contract, respecting the territory of the other partners and a penalty for reneging on the agreement.

As discussed in prior section, one of the key challenges that faced the joint venture team was severe time constraint in concluding preparations work for implementation of the joint ventures. Management team responsible for actualizing the joint ventures under review had to work under very tight deadlines in order to conduct due diligence, address legal as well as regulatory requirements, in addition to working out financial as well as human resources needs to get the joint ventures running. However, for example the project teams responsible for actualizing the joint venture between Shell and Mobil had only three months and had to work under very tight deadlines in order to get the joint ventures running. One of the most significant steps in addressing this challenge was setting up of cross-functional teams to manage specific pre-implementation activities, each team with competence to tackle issues at hand better. For example, team to address terminal operational and technical joint venture issues constituted staff who had the requisite depot management and technical competence to be able to identify and address the critical issues. The various teams worked in parallel and compared notes frequently under the steer of senior management of the negotiating partners.

Another significant approach to addressing the joint venture issues was through intense but upfront negotiations before the oil terminal joint ventures could take off. Ultimately, the parties of the joint venture agreed to a comprehensive written legal agreement that was signed upfront. The agreement had provisions for potential conflict areas including: The scope of the joint venture; each party's contributions to the joint venture, which may take the form of money, labor, technology and/or expertise; provisions for future contributions or other means of meeting the future capital needs of the joint venture (for example, obligations of the parties with respect to personal guarantees on future indebtedness); logistical issues, including who will be doing what, where; Governance of the joint venture, on both a day-to-day level and with respect to fundamental decisions; Ownership of jointly developed assets, including intellectual property; Dispute resolution; and the terms and termination of the joint venture, including provisions for winding up its business. A comprehensive agreement of this type has ensured that each party knows what to expect and what is expected of them. It also affords a remedy if the other party fails to fulfill its promises. In situations where there have been significant changes in circumstances, the joint venture parties have evoked clauses or included amendments in the agreements to address such changes.

An awareness of communication processes is essential within joint ventures if maximum efforts are to be coordinated and directed towards the success of the joint venture. As a means getting buy-in and commitment to the joint ventures from all staff especially at the inception of the alliances, the joint venture partners conducted internal marketing through staff engagement sessions. During these sessions, joint venture implementation team, through top management team briefed staff on joint venture developments and progress in addition to taking their feedback on areas of concern and suggestions for improvements. In addition to these frequent communications, the joint terminals are open to staff (whether from Marketing, Finance etc) form partner firms to conduct on-site visits and audits as a way of maintaining transparency and hence dispel perceptions of biasness from terminal management.

In order to address the perception some joint venture partners are benefiting more from the partnership, the partners have developed key performance indicators (KPIs). The KPIs include volumes lifted by each partner, truck turn-around times, safety data, budget spend against plan among others. Terminal management is accountable to the partners on delivery of the KPIs, which are open to review on a continuous basis and are formally discussed during steering committee meetings, which are held regularly but at least quarterly to monitor joint venture activities.

CHAPTER FIVE: SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

The first objective of the study was to determine what challenges are faced by oil terminal joint ventures in Kenya. The study revealed these challenges include: critical information not quickly unavailable to the deal makers, tight timetable for the joint venture implementation, generating trust among staff of joint venture partners, timely and consistent information flow among all staff, unforeseen additional capital expenditure requirements, external and market factors including product stock outs due to supply constrains by KPC and KPRL, cultural difference, differences in operating procedures and information system, human resources planning, audit overload especially for joint terminal management and delays in realising intended benefits.

The second objective of the study was to establish approaches employed to overcome the oil terminal joint venture challenges. Research findings indicate the partners identified factors that contribute to the success of joint ventures and suggested that by deliberately working on these, most of the challenges would be addressed in the process. These success factors include commitment to the joint venture, communication, trust, managers working well together, having common goals, having benefits visible to those involved, the financial stability of the firms, keeping egos in check, each partner contributing a significant component to the alliance, a written contract, respecting the territory of the other partners and a penalty for reneging on the agreement.

Cross-functional teams, each comprising staff with requisite competence to address assigned issues, were constituted to address specific focus areas. Ultimately, the parties of the joint venture agreed to a comprehensive written legal agreement that was signed upfront. The agreement had provisions for potential conflict areas including: The scope of the joint venture; each party's contributions to the joint venture, which may take the form of money, labor, technology and/or expertise; provisions for future contributions or other means of meeting the future capital needs of the joint venture (for example, obligations of the parties with respect to personal guarantees on future indebtedness); logistical issues, including who will be doing what, where; Governance of the joint venture, on both a day-to-day level and with respect to fundamental decisions; Ownership of jointly developed assets, including intellectual property; Dispute resolution; and the terms and termination of the joint venture, including provisions for winding up its business. A comprehensive agreement of this type has ensured that each party knows what to expect and what is expected of them. It also affords a remedy if the other party fails to fulfill its promises. In situations where there have been significant changes in circumstances, the joint venture parties have included amendment sin the agreements to address such changes.

As a means getting buy-in and commitment to the joint ventures from all staff especially at the inception of the alliances, the joint venture partners conducted internal marketing through staff engagement sessions. In order to address the perception some joint venture partners are benefiting more from the partnership, the partners have developed key performance indicators with timelines. Terminal management is accountable to the partners on delivery of the KPIs, which are open to review on a continuous basis and are formally discussed during steering committee meetings, which are held regularly to monitor joint venture activities

5.2 Conclusion

The overall research findings show that challenges faced by oil terminal joint ventures in Kenya are varied. The study found out that important success factors to addressing these challenges are those factors related to interpersonal dynamics: trust, communication, commitment, and having managers that can work together as a team. It is interesting to note that these results are also consistent with observations made in literature review on joint ventures management globally. In discussing business strategy specific to joint ventures, respondents identified having safeguards in a written legal agreement prior to implementation of joint ventures assists in anticipating and addressing potential future challenges and conflict areas. These observations underscore the importance of having cross-functional teams to manage joint venture negotiation and implementation. The findings also suggest that training for joint venture negotiation and implementation team members needs to include communication skills, trust building, and team building exercises.

5.3 Limitations of the Study

The major limitation of this research is that it is based on only two case studies, and therefore it is important to consider contextual factors that may have affected the results and decreased the generalisability of it. More case studies are proposed to give additional support for the findings obtained from this research. Nevertheless, this paper does offer both academics and practitioners alike some insights into the kinds of managerial concerns that are pertinent to oil terminal joint ventures.

Confidentiality was also another limitation to the study as most respondents were constrained on the level of information they could divulge concerning the oil terminal joint ventures due to the confidentiality clause governing the alliances. For that reason, the research findings have been generalized to minimize inference to any specific joint venture.

5.4 Recommendations for further Research

It is generally a truism that no research is an end in itself. Therefore, what this research has achieved can only be considered to be little hence requiring further research work. From the insights gained in the course of the investigation, the researcher proposes further research on the topic to cover joint ventures and indeed other forms of strategic alliances in other key economic sectors in Kenya. Such studies would assist in capturing industry specific contextual factors that affect joint venture performance and in so doing assist in building up body of knowledge as well as providing good reference material for management practitioners.

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APPENDIX 1: Letter of Introduction

September 2007

Dear Respondent,

RE: LETTER OF INTRODUCTION

This questionnaire is designed to collect views on challenges faced by oil terminal joint ventures in Kenya and approaches employed to overcome them.

The study is being carried out as part of management research project in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA), School of Business, University of Nairobi.

The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. A copy of the final research report will be availed to you upon request

Thank you for your kind assistance.

Yours Sincetely,

Francis O. Owuor	Prof. Evans Aosa
MBA STUDENT	**SCHOOL OF BUSINESS**
	UNIVERSITY OF NAIROBI

APPENDIX 2: Questionnaire For JV Steering Team Member

Topic: **Challenges faced by Oil Terminal Joint Ventures In Kenya**

This questionnaire is designed to collect views on challenges faced by oil terminal joint ventures in Kenya and approaches employed to overcome them. The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. Your views and opinions will assist the researcher to come up with useful information on challenges faced by oil terminal joint ventures.

SECTION A: Oil Industry Overview

1. How would you describe the changes that have taken place in the oil industry in Kenya in the last 10 years

   ....

   ....

   ....

   ....

2. Would you say oil terminal joint venture was considered part of the responses to these changes?

   ☐ No ☐ Yes

SECTION B: Joint Venture Particulars

3. When was the joint venture started? ....

4. Does the joint venture have a pre-planned end date?

   ☐ No ☐ Yes

   Kindly give details

   ....

   ....

5. Who are the partners in the joint venture?

....

....

6. Has there been any change in the joint venture membership since its inception?

☐ No ☐ Yes

If yes kindly give details

....

....

....

....

7. What is the scope of the joint venture?

....

....

....

....

SECTION C: Joint Venture Partner Selection

8. What were the considerations in joint venture partner(s) selection? (Tick all applicable)

Partner size ☐ JV experience ☐

Corporate culture ☐ Management style ☐

Others (please elaborate)

....

....

....

....

SECTION D: Joint Venture Objectives

9. What are the primary objectives of the joint venture?

....

....

....

....

10. How is attainment of these objectives measured?

....

....

....

SECTION E: Joint Venture Planning

11. Was there a cross-functional team to plan different aspects of the joint venture?

☐ No ☐ Yes

If yes what aspects were handled by the various teams?

....

....

....

12. What were the preconditions that had to be met at the planning stage before the JV implementation could commence? (Tick all applicable)

Signed JV agreement ☐ Assets Valuation ☐

Budgetary allocation ☐ Regulatory approval ☐

Others (please elaborate)

....

....

13. Is there a joint venture agreement?

☐ No ☐ Yes

If yes what aspects does the joint venture agreement cover?

....

....

....

....

14. What were the challenges during the planning stage?

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....

....

....

15. How were the challenges addressed?

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....

SECTION F: Changes that affect the Joint Venture Performance

16. Has there been any significant change(s) during the life of the joint venture?

☐ No ☐ Yes

If yes, what were the changes?

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17. What challenges did these changes pose to the joint venture?

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18. How were the challenges addressed?

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19. Did these changes lead to reformation/dissolution of the joint venture?

☐ No ☐ Yes

20. Do you have any other insight you may want to share concerning the joint venture?

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....

THANK YOU

APPENDIX 3: Interview Guide For JV Terminal Management

Topic: **Challenges faced by Oil Terminal Joint Ventures In Kenya**

This questionnaire is designed to collect views on challenges faced by oil terminal joint ventures in Kenya and approaches employed to overcome them. The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. Your views and opinions will assist the researcher to come up with useful information on challenges faced by oil terminal joint ventures.

SECTION A: Joint Venture Governance

1. What is the reporting line for joint venture management?

....

....

....

2. What is the interface between the joint venture terminal management and the various joint venture partners?

....

....

....

....

....

SECTION B: Joint Venture Performance

3. What are the primary objectives of the joint venture?

....

....

....

....

4. Would say the objectives of the joint venture have been met?

☐ No ☐ Yes

Kindly elaborate

....

....

....

5. Are there key performance indicators (KPI) that the joint venture partners hold terminal management accountable for?

☐ No ☐ Yes

Kindly list the KPIs as applicable

....

....

....

6. How often is terminal management assessed on joint venture performance?

....

....

....

7. What challenges does terminal management face in day-to-day running of the joint venture? (Tick all applicable)

Misaligned goals ☐	Inadequate capitalization ☐
Cultural differences ☐	Slow decision making ☐

Others (please elaborate)

....

....

....

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8. How are the challenges addressed?

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9. How are conflicts in the joint venture addressed?

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10. Do you have any other insight you may want to share concerning the joint venture?

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<u>THANK YOU</u>