# COMPETITIVE STRATEGIES EMPLOYED BY NATIONAL OIL CORPORATION OF KENYA

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

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# DECLARATION

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

Signature …………………………………….. Date ……………………….

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D61/60101/2010

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

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# DEDICATION

I dedicate this project to my family for unfailing encouragement and love. To the strong man in my life; who surround me as a family or friend, for walking this journey with me, for picking me up when I fell; for burning the mid night oil with me .

To my loving daughters Meisy, Michelle and son mark May this accomplishment be an inspiration to you in your pursuit of knowledge and excellence. Always keep in mind that anything is possible and you can do it.

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To my work mates Silas and Hilda thanks for holding forth for me many times I was away on many occasions in pursuing this noble course, to all of you my Almighty God bless you abundantly.

# ABSTRACT

A company without proper strategy is like a person without sight. A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation. The business strategy perspective argues that achieving competitive advantage hinges on pursing a coherent competitive strategy. Strategists aver that firms should have the inside to outside approach, whereby strategies are realigned towards making of goods and services that cultivate their own niche in the market and format structures that sustain those markets. Markets are points of exit for the firm's products, and through measures like advertising and adoption of appropriate strategy, new markets are opened.

The research design was a case study of the National Oil Corporation of Kenya on competitive strategies adopted. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings from the study were that the company uses low cost strategy, differentiation, focus and resource based strategy in order to compete with other oil marketers. The strategies enabled the company to minimize costs, outsource services, adopt strategies to increase market share, brand its service stations, quality offerings, marketing capabilities, technological leadership, efficient delivery system, focus on local market, ensuring market penetration and development and ensuring the company sources for resources in order to compete effectively with other companies.

# TABLE OF CONTENTS

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The service sector is expanding at an increasing rate and is becoming intensely competitive. As such, every organization needs to adopt some strategies which will enable it to have a competitive edge over the others. As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from competitors. Strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. Influences such as economic restructuring, intensified competition, government regulations, and technological advances have resulted in heightened environmental turbulence and uncertainty for small business firms. As noted by Covin and Slevin (1989), small businesses are particularly susceptible to environmental influences due to limited resources and the devastating consequences of poor managerial decisions.

According to Porter (1980), the ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. The characteristics of the competitive context are considered to be the factor that most strongly influences the type of strategy a company pursues or can formulate, and the level of profitability. It is also accepted that a company's ability to be competitive and profitable depends not only on the type of strategy it formulates and implements, but also on the way in which it is formulated (Rogers, Miller, and Judge 1999). The success of a company‘s competitive strategy depends on how it relates to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the company's environment is the industry or industries in which it operates. Industry structure has a strong influence in defining the rules of the competitive game as well as the strategies potentially available to the company.

The intensity of competition in an industry is not a matter of luck. Rather, competition is rooted in underlying industry economics and goes well beyond the established competitors. Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competition differs; the forces range from intense in industries like tires, paper and steel, where no firm earns spectacular returns, to relatively mild in industries such as oil field equipment and services, cosmetics and toiletries, where high returns are common (Kroll *et al.,* 1999). The essence of competitive strategy for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favor. Knowledge of the underlying sources of competitive pressure can reveal the basic attractiveness of an industry, highlight the critical strengths and weaknesses of a company, clarify the areas where strategic changes may yield the greatest payoff and pinpoint the industry trends that promise the greatest

### 1.1.1 Concept of Strategy

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Biggadike, 1976). Andrews (1971) argues that with respect to corporate strategy, strategists address what the firm might and can do as well as what the firm wants to do. However, he also argues that strategists must address what the firm ought to do. The “ought to do”, in Andrews' parlay, refers to corporate social responsibility. He suggested that business firms are not responsible to society, but rather that the obligation of social responsibility falls upon the managers of business firms. Mintzberg (1988) proposes five formal definitions of strategy as plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position but an ingrained way of perceiving the world.

According to Tan and Litschert (1994) strategy refers to the competitive methods used by firms to establish their positions in a particular market. It reflects the firm's short-term and long-term responses to challenges and opportunities posed by the business environment. Company strategy determines how a firm attracts its customers and deals with its competitors, suppliers and other institutions for survival and growth. Strategy must be judged on its performance and effectiveness to meet the overall vision mission and objectives. A strategy is not an end by itself but a means to attain the stated goals.

Johnson and Scholes (2000 pg. 12) define strategy as "the direction and scope of an organization over long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations". He concludes that strategy can be seen as the matching of the resources and activities of an organization to the environment in which it operates. This is sometimes known as search for strategic fit. The concept of strategy is therefore built around winning. Strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired. Effective strategy is formulated around four factors. These are, the goals and objectives are simple, consistent and relate to the long term, there is profound understanding of the competitive environment, there is an objective appraisal of the resources available and that there is effective implementation (Hitt *et al.,* 2008).

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### 1.1.2 Competitive Strategies

Competitive strategies are designed for situations where only partial information is available, whereas an optimal solution would require complete knowledge of all circumstances, or of the future. The extent of market orientation in a firm must be congruent with the competitive strategy adopted (e.g. Conant *et al.,* 1990. In fact, the importance of the match between business strategy and marketing strategy has been empirically illustrated (Olson *et al.,* 2005). The argument that competitive strategies drive market orientation is founded on the assertion that marketing activities are likely to be influenced by strategic choices at the macro competitive strategy level (Slater and Olson, 2001).

The competitive strategies adopted by a firm should result in a competitive advantage. Competitive advantage grows fundamentally out of value a firm is able to create for their buyer that exceeds the firm's cost of creating it. The goal of a competitive strategy for a business it to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favor. Knowledge of underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company, animates its position in the industry, clarifies areas where strategic changes may yield greater pay off and highlights the area where industry trends promise to hold the greatest significance as either opportunity or threat. An effective competitive strategy takes either offensive or defensive action in order to create a defendable position against the five forces and thereby yield a superior return on investment for the firm.

### 1.1.3 National Oil Corporation of Kenya

National Oil was incorporated in April 1981 under the companies Act, Cap 481 and charged with participation in all aspects of the petroleum industry. The company has 100% Kenya Government shareholding. The formation of National Oil was predicated by the Oil crisis of the 1970's (1973/74) and 1979/80) and the correspondent supply disruption and price hike which resulted in the country's oil bill comprising of almost one third of the total value of imports and therefore making petroleum the largest single drain of Kenya foreign exchange earnings. In the national interest it was therefore felt necessary to have greater control of this crucial factor of the performance of the economy by having a company, which would act as an instrument of Government policy in matter related to oil.

From 1984, when National oil becomes operational, one of the major activities has been the upstream operation which was spearheading of petroleum exploration on behalf of the Kenya government upstream activities. Even though there has been no commercial discovery to date, a lot of data showing positive prospects have been acquired. This has raised optimisms that if the current momentum for intensive exploration work is sustained, an economic discovery will be made. The role of National oil in petroleum exploration includes; overseeing the fulfillment of petroleum exploration companies' obligations in accordance with contracts signed with the Kenya government, providing and disseminating exploration data from various exploration activities in form of reports and promoting the same oil companies in order to attract them to do exploration in Kenya. Undertaking various exploration works in various basins in accordance with available capital outlay, technical expertise and equipment available, to manage on behave of the government storage and disposal of government's share of oil after discovery.

National oil started downstream activities in March 1988 with the importation of the first crude oil cargo, this was the fulfillment of the government mandate for National oil to supply 30% of the country's petroleum requirements. These supplies were sold to major oil marketers at a small margin in bulk prior to processing. One of the other major roles at this time was to act as an advisor of the government on pricing and other related Oil policies. Since October 1994 when the Oil industry was deregulated, the mandate to import 30% of the country's crude oil requirement ceased and national oil has been marketing petroleum products to the final consumers.

In 1997, after the first three petroleum stations were completed, national oil moved on to retail sales. They acquired ten petrol stations sites in 1995-1997 to build retail outlets and out of these sites six have been developed to fully-fledged stations, all these have a forecourt, service, shop and restaurant facilities expected of a modern service station. National oil has since acquired sixty service stations from individuals and other oil marketers such as BP and shell and Somken. Currently the company has a sixty seven service stations spread across the country. National Oil has a truck loading facility in Nairobi to serve and its environments markets which comprise of

60% of the domestic demand for petroleum products in Kenya. National Oil has also entered into the market segments which include Liquefied petroleum gas LPG and lubricants.

## 1.2 Problem Statement

In today's highly competitive business environment, budget oriented planning and forecast-based planning methods are insufficient for a large organization to survive and prosper. The firm must engage in a strategic planning that clearly defines objectives and assess both the internal and external situation to formulate strategy, implement it, evaluate the progress, and make necessary adjustment necessary to stay in track (Thompson and Strickland, 2003). History reveals that human beings strive to find the right way, system, style, principle, culture and so on. Every knowledge and skill on this earth is the accumulated wisdom and experience of yesterday. Therefore it should be kept in mind that nothing can be gained freely. Especially in the business world the competitive environment is making life very complex for any company to maintain itself. It is not a secret that many giant business enterprises failing to cope with the existing competitive situation have become extinct.

The oil sector plays a key role in the country’s socio economic development. In fact all other sectors depend on this sector for them to function. At present the strategies adopted by the National Oil Corporation are becoming highly important and critical as the competition in the oil sector has intensified to the extent that firms need to change their strategies in order to survive. It is important in a sense that it enables the company to be cost effective, quality conscious and highly competitive in the contemporary global market. National Oil Corporation must evaluate its internal and external factors and formulate appropriate strategy congruent to the present situation.

Recent studies done in the area of competitive strategy include Amir (2007) who did competitive strategies adopted by petroleum retail stations in Kenya a case of Mombasa city and the findings showed that all stations are applying some strategies for competition but most of them combine both the cost leadership and differentiation strategies at the same time, most of which are the multinationals due to their favorable financial capabilities. Obado (2005) did competitive strategies employed by the sugar manufacturing firms in Kenya and found out that the sugar manufacturing firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. A study by Kitoto (2005) on competitive strategies adopted by Universities in Kenya found out that Kenyan universities use satisfactory quality of teaching and recognized degree with acceptable quality in order to achieve overall cost leadership. Billow (2004) did a survey of strategies adopted by supermarkets in Nairobi and found out that supermarkets in Nairobi practice competitive strategies but mostly do it informally. Growth strategies, cost leadership differentiation, location strategy, customer service and communication strategies were the most common competitive strategies supermarkets firms applied. As observed above, the studies conducted on competitive strategies adopted by various organizations have not considered the competitive strategies which the oil firms under government control have adopted. This research will therefore seek to identify the competitive strategies being adopted by National Oil Corporation of Kenya. This problem statement is guided by the questions: what competitive strategies has National Oil Corporation adopted?

## 1.3 Research Objectives

The objectives of the study are:

To determine the competitive strategies adopted by National Oil corporation of Kenya.

## 1.4 Value of the study

The study will be important to;

It will enable the management of the Corporation to know the strategies which they can adopt in the face of high competition in the energy sector. In addition the study will be an invaluable source to those interested in establishing a business in the oil sector since they will be able to understand what to do right to succeed and what if done wrong will bring the business down.

The study will also create a monograph which could be replicated in other corporation which are facing high competition from the private sector. Most importantly, this research is further aimed at offering some practical suggestions on the strategies to be put in place in order to gain competitive advantage. The policy makers will obtain knowledge of the oil sector dynamics and the appropriate competitive strategies; they will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector.

Future scholars may use the results of this study as a source of reference. The findings of this study can be compared with competitive strategies in other sectors to draw conclusions on various ways an institution can respond to competitive forces in the environment. It will also benefit consultants who endeavor to provide assistance to successful running of organizations in developing and sustaining a competitive edge in their environment.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Competitive Strategies

A competitive strategy, from a business level perspective, is the achievement of competitive advantage by a business unit in its particular market. Sidorowicz (2007) views competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare. Firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not. Competitive strategies can lead to high organizational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses. However, achieving competitive advantage and increased market share in a competitive environment is rather complex in several aspects as businesses would need to operate with distinguished principles and characteristics in order to continually adapt to change. Porter (1980) noted that a firm can gain its competitive advantage by producing value for its customers. Porter also stressed that a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors.

According to Ittner *et al.* (2003) firms need strategy to sustain and grow profitability, revenues, market share and most importantly-acceptance. Competitive strategy is concerned with how a company competes in a particular business and gains a competitive advantage through a distinctive way of competing. Business firms need to consider the overall strategy if it wants to remain relevant in the market. It is concerned with the mix of businesses the organization should compete in, and the ways in which strategies of individual units should be coordinated and integrated. Competitive strategy helps to search for a favorable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition. Competitive strategies have been classified into three types: cost reduction, innovation and quality-enhancement (Schuler and Jackson, 1987). It has been argued that all three strategy types can be used simultaneously to gain domestic and international competitive advantage, regardless of industry. Others argue that there is only one essential factor in determining a competitive advantage – i.e. the ease with which competitors can enter or expand in a given market (Greenwald and Kahn, 2005).

Two schools of thought have emerged on the conceptualization and adoption of competitive strategies. One school of thought has predominantly considered that viable firms can either seek efficiency or differentiation. The more efficiency is sought by management, the less differentiated the firm would be. While the more differentiation is sought by management, the less efficient the firm would be Hambrick (1983). Porter (1980), representing this school of thought, conceptualized low costs vs. differentiation in terms of a continuum, with low costs at one end and differentiation at the other end. According to Porter (1980 p. 89), "a firm will ultimately reach the point where further cost reduction requires a sacrifice in differentiation. It is at this point that generic strategies become inconsistent and a firm must make a choice".

The members of this school of thought have considered that the value chain required for a low cost strategy is qualitatively different from the value chain required for the differentiation strategy. The emphasis of the differentiation strategy would be on gaining (even at considerable costs) superior quality and image throughout the value chain while the emphasis of the low cost strategy would be on the lowering of costs wherever possible. Because of different thrusts of the strategies, according to this school of thought, viable firms tend to compete with one strategy only. Porter (1985 p. 24) said that “sustained commitment to one of the strategies as the primary target is usually necessary to achieve success”. Later on he hedged this position by stating that, "A cost leader must achieve parity or proximity in the bases of differentiation even though it relies on cost leadership for its competitive advantage. Hambrick (1983) excluded the possibility of firms competing with more than one strategy. He proposed that even though the competitive strategies may be found among various industries, not all of them would be found within any one industry setting. He argued that the low cost strategy would be unlikely to be found in a dynamic industry environment. According to Dess and Davis (1984) competitive strategies represent broad strategy types of strategic groups. Consequently, the choice of strategy can be viewed as the choice of which strategic group to compete in.

The second school of thought has considered that the low cost strategy and the differentiation strategy may be adopted simultaneously by an enterprise (Philips, et al. 1983) and (White 1986). Accordingly, the adoption of the differentiation strategy would entail promoting higher product quality. This would likely mean higher costs across a number of the functional areas in order to support the differentiation strategy and quality products would presumably channel greater market demand toward the firm.

Development of competitive position helps the firm to more accurately forecast both and long-term growth and its profits potential (Pearson and Robinson, 1997). Suppliers and creditors pose dependable relationships between a firm and its suppliers and creditors are essential to the firm’s long-term survival and growth. They provide the firm with financial support, services, material and equipments. Human resources are a source of competitive advantage. A firm’s ability to attract and hold capable employees is essential to its success. A firm’s access to needed personnel is affected by its reputation, local employment rates, and the ready availability of people with needed skills. Customers consume company's products. They are the source of sales revenue. Development of a profile representing present and existing customers improves the ability of managers to plan strategic operations, to anticipate changes in the size of the market and to relocate resources so as to support forecast shifts in demand pattern, (Pearce and Robinson 2002).

## 2.2 Porter's Generic Business Strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, an organization finds its industry niche and learns about its customers (Porter, 1980). Porter (1985) asserts there are basic businesses strategies differentiation, cost leadership, and focus and a company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Hlavacka *et al.*, 2001). Whatever strategy a business chooses, it must fit with the company and its goals and objectives to gain a competitive advantage (Ross, 1999). Porter's (1980) generic strategies can yield competitive advantage and also ensures long-term profitability, the firm must make a choice between one of the generic strategies rather than end up being "stuck in the middle"

### 2.2.1 Differentiation Strategy

Differentiation strategy is usually developed around many characteristics such as product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques. Thus, a firm that implements a differentiation strategy enjoys the benefit of price-inelastic demand for its product or service. This would in turn help the firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits (Porter, 1980). The successful implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 1980).

When using this strategy, a company focuses its efforts on providing a unique product or service (Hlavacka *et al.*, 2001). Since, the product or service is unique; this strategy provides high customer loyalty (Porter, 1985). Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

According to McCracken, (2002) the key step in devising a differentiation strategy is to determine what makes a company different from a competitor's. Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2002). To be effective, the message of differentiation must reach the clients, as the customer's perceptions of the company are important and suggest bending the customer's will to match the company's mission through differentiation. When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka *et al.*, 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products.

Some key concepts for establishing differentiation include: speaking about the product to select panels, writing on key topics affecting the company in the association's magazine or newsletter, becoming involved in the community, being creative when composing the company's portfolio, offering something the competitor does not or cannot offer, adding flair and drama to the store layout, providing e-commerce, making access to company information and products both quick and easy, using company size as an advantage, training employees with in-depth product and service knowledge, offering improved or innovative products, emphasizing the company's state-of-the-art technology, quality service, and unique products/services, using photos and renderings in brochures and selecting products and services for which there is a strong local need (Darrow *et al.*, 2001). The shareholder value model holds that the timing of the use of specialized knowledge can create a differentiation advantage as long as the knowledge remains unique. This model suggests that customers buy products or services from an organization to have access to its unique knowledge. The advantage is static, rather than dynamic, because the purchase is a one-time event. The unlimited resources model utilizes a large base of resources that allows an organization to outclass competitors by practicing a differentiation strategy. An organization with greater resources can manage risk and sustain losses more easily than one with fewer resources. This deep-pocket strategy provides a short-term advantage only. If a firm lacks the capacity for continual innovation, it will not sustain its competitive position over time.

### 2.2.2 Cost Leadership Strategy

Cost leadership strategy is usually developed around organization-wide efficiency. In order for firms implementing the cost leadership strategy to maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on efficiency of operations in all functional areas (Porter, 1980). Firms that implement a cost leadership strategy are able to secure a relatively large market share by being the lowest cost producers or service providers in their industry or market. Thus, firms implementing the cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm's cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009, p.356).

Lower costs and cost advantages result from process innovations, learning curve benefits, economics of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share. As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market. The leader then is somewhat insulated from industry wide price reductions (Porter, 1980). The cost leadership strategy creates little customer loyalty and if a firm lowers prices too much, it may lose revenues.

By innovative best-practice organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology in a cost-effective way, trimming of overheard cost, and efficient operations, a firm can achieve the cost reduction. Sometime, cost reduction can also be achieved by outsourcing manufacturing and services when outsider providers offer lower-cost alternatives. With the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms. The reason for applying the strategy of cost leadership is to obtain the advantage by reducing the economic costs among its competitors (Barney, 2002, p.236). This strategy highlights efficiency. By producing high qualified and standardize products or services, at the same time, with the effects of the economic scale and experience curve, the firm strives to gain a sustainable competitive advantage among its competitors. Basically, the firm has two major ways to main this cost advantage. Either by controlling the cost drivers, which means that a firm can gain an advantage according to the cost drivers of value activities disclosing a profound proportion of total cost; or by reconfigure the value chain, in other words, with the adoption of different and more efficiency way to manufacture, promote, distribute and design the product, a firm can also gain a cost advantage (Porter, 1985, p.11).

According to (Palepu and Healy, 2008, p. 2-12), a firm may produce a relative low profit margin by adopting the strategy of cost leadership. Cost leadership strategy helps firms to produce the standard, high-volume product or service at the most competitive price to customers. By emphasizing on a cost-leadership strategy is kindly to create higher financial performance for firms competing in the emerging economies, as firms can gain a relative advantage because of their lower costs in labour recourse and manufacture (Aulakh, 2000, p.350). Furthermore, from the customers' point of view, the strategy of cost-leadership catches the most charming issue (lower price) in emerging economies, offering the products or service to those people with low level of disposable income (Caroline, 2008, p.4). 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. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns. A cost leader, however, cannot ignore the bases of differentiation. If its product is not perceived as comparable or acceptable by buyers, a cost leader will be forced to discount prices well below competitors' to gain sales. This may nullify the benefits of its favorable cost position.

### 2.2.3 Focus Strategy

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (McCracken, 2002). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms David, (2000).

According to Lahtinen and Toppinen (2006) the focuser selects a segment of group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments ate poorly served by broadly-targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively. Breadth of target is clearly a matter of degree, but the essence of focus is the exploitation of a narrow target's differences from the balance of the industry. Narrow focus in and of itself is not sufficient for above-average performance.

## 2.3 Resource Based Strategy

Resources are defined as: “stocks of knowledge, physical assets, human capital, and other tangible and intangible factors that a business owns or controls, which enable a firm to produce, efficiently and/or effectively, market offerings that have value for some market segments” (Capron and Hulland, 1999, p. 42). Barney (2001) noted that the use of resources has many potential advantages for firms such as the achievement of greater efficiency and therefore lower costs, increased quality and the possibility of greater market share and/or profitability. Initiated in the mid-1980s by Wernerfelt (1984) the resource-based view (RBV) has since become one of the dominant contemporary approaches to the analysis of sustained competitive advantage. A central premise of the resource-based view is that firms compete on the basis of their resources and capabilities (Peteraf and Bergen, 2003). The competitive value of resources can be enhanced or eliminated by changes in technology, competitor behavior, or buyer needs which an inward focus on resources will overlook”. Similarly, Levinthal and Myatt (1994, p. 46) argue that “many organizational capabilities emerge, are refined, or decay as a result of, or an absence of, product market activity”. Gimeno (1999, p. 101) states that the resource-based research “has emphasized the lack of ability of imitators or rivals to erode the market position of a firm as a necessary condition for sustainability, implicitly assuming that any rival capable of eroding the position will do so, and cannot be restrained from pursuing that course of action”.

The resource-based view of strategy regards strategic (rather than economic) resources as firm specific and difficult for rivals to buy or copy and which have value to managers in influencing the direction and growth of a firm. This view understands strategic resources as tangible and intangible assets that when combined will help to constitute a firm's competitive advantage (Barney, 2001). The softer components of organizational resources, such as staff and skills, and how these are managed in operational teamwork against top-level targets and longer-term strategy, are central to the management of strategic resources. The resource-based view regards the firm as a cognitive system, which is characterized by idiosyncratic and context-dependent competences that are core to strategic purpose. These are conditioned by hierarchical capabilities, or sets of routines, involved in the management of the firm's core business processes that help to create value. Competences typically involve the development of specialist expertise, and firms may become locked into a trajectory that is difficult to change effectively in the short to medium-term (Tushman and Anderson, 1986). The premises of the resource-based view is that successful firms develop distinctive capabilities on which their future competitiveness will be based; which capabilities are often idiosyncratic or unique to each firm, and may also be tacit and intangible in nature (such as knowledge) (see Teece *et al*., 1991). Competitive advantage is seen to be founded on a complex of competences, capabilities, skills and strategic assets possessed by an organization, or in other words from the astute management of physical and intellectual resources which form the core capability of the business.

The resource-based view (RBV) emphasizes the firm’s resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Peteraf and Barney, 2003). It assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control and also that resource heterogeneity may persist over time because the resources used to implement firms’ strategies are not perfectly mobile across firms (some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes “If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool *et al.*, 2002, p. 57). The assumed heterogeneity and immobility are not, however, sufficient conditions for sustained competitive advantage. According to Barney (1991), a firm resource must, in addition, be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The research design used was a case study. Cooper and Schinder (2005), states that case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit. Additionally a case study allows a researcher to use one or more of the several research methods depending on the circumstances. It is through an interview with some selected persons concerned with identification and harnessing of the organizations strategic decisions that the researcher can be able to identify the competitive strategies adopted in order to enhance its' strategic goal. As a result of this, a case study research design was an appropriate design. The study was be used to identify the competitive strategies adopted by National Oil Corporation.

## 3.2 Data Collection

The study used both primary and secondary data. Primary data was collected using an interview guide (Appendix I). The interview guide was divided into three sections. Section A contained the organizational profile while section B covered the competitive strategies. The respondents interviewed were those involved with formulation and implementation of organization's strategies. The respondents were sales and marketing manager, business and development manager, retail manager, operations manager, information manager and the procurement manager. This made it possible to obtain data required to meet specific objectives of the study. Secondary data was collected from the company's strategic plans, newsletters and other related documents

## 3.3 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis is adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that were used in the analysis were used to identify the competitive strategies adopted by National Oil Corporation of Kenya.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

## 4.1 Introduction

The objective of the study was to establish the competitive strategies adopted by National Oil Corporation of Kenya. This chapter presents the data analysis, results and discussion with regard to the objective of the study. The respondents comprised the sales and marketing manager, business and development manager, retail manager, operations manager, information manager and the procurement manager. In total, the researcher interviewed six respondents out of the intended seven respondents and this corresponds to 86% which was considered adequate for data analysis by the researcher.

## 4.2 Organizational and Respondents Background

The respondents comprised the managers of the corporation. All the respondents interviewed had university degrees with two of them having a Master in Business administration degree as well. The respondents had different educational backgrounds that ranged from Information technology, Marketing, supply planning, and procurement. In addition, all the respondents had worked in the organization for over five years. With this solid background, it was felt that the respondents were knowledgeable enough on the research subject matter and thus of help in the realization of the research objective.

The respondents indicated that the company has been in existence for thirty years and they have seventy two service stations spread across the country with seven been the ones which they constructed while the others, they have franchised or leased. The company was primary formed to cushion customers against exploitation by multinationals oil marketers, however they have been forced to market their oil products competitively due to lack of preference in the importation and distribution of the oil.

## 4.3 Competitive Strategies

A competitive strategy is the achievement of competitive advantage by a business unit in its particular market. A competitive strategy is one that specifically directs an organization in gaining a competitive advantage above its rivals. Strategy is about ensuring the survival and prosperity of a firm by implementing strategies to fulfill stakeholder expectations in an uncertain future. Firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not. Competitive strategies can lead to high organizational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses. However, achieving competitive advantage and increased market share in a competitive environment is rather complex in several aspects as businesses would need to operate with distinguished principles and characteristics in order to continually adapt to change.

### 4.3.1 Low Cost Strategy

The respondents indicated that the company adopts low cost strategy although they offer similar products. They also cited the issue of liquefied petroleum product (LPG) which they offer to their customers at low prices of ksh 2,300 yet other competitors like total and Shell offer the same product at shs 2,600 and shs 2,700 respectively although they have the same features like their competitors. The company also practices low cost strategy through tight control of costs and overhead, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. The low-cost leader gains competitive advantage by getting its costs of production or distribution lower than those of the other firms in its market. Despite the oil industry products been the same, the company is forced to offer the products and services at industry level in order to realize returns on investment. They also avail products to all its distribution channels which are resellers, independent and commercial customers thus reaching most clients directly and indirectly.

The results indicates that the company has a strategy for cost reduction in all aspects of business which they have achieved through reduction of wastages in recycling used envelopes for internal communication, switching off their lights during the day to minimize costs and engaging in long term investment in projects that will result in reduced costs and at the same time realize profits. The results indicate that the company has developed the strategies which will ensure the company achieves the low cost strategy. The company does not make a virtue out of low cost product features because by over emphasizing it, the quality of the products can be compromised and therefore the company should concentrate on strategies which gives the company competitive advantage over its rivals.

The respondents indicated that the management of the company and the employees have a low cost strategy mindset which they achieve by providing goods and services at the lowest cost without compromising on the quality of their products e.g. Supadel HD40 which is very high performance oil which is offered cheaply in the market without excluding its product features. The company has been able to achieve low cost strategy by competitive sourcing of products through tendering process as there is a procurement plan in place every financial year which has to be adhered to the latter, managing the corporations resources efficiently by sensitizing the staff on minimizing wastage, ensuring that the prices are sourced at lowest price possible, putting in place business planning committee who normally plan where to procure the cheapest products in the market and at the same time have a pricing committee who normally meet daily to review the market prices and ensure that their prices are lower than the competitors. The employees on the other hand have suggested to the management cost cutting initiatives during the staff forums.

The results indicate that the company has outsourced or discontinued services which they do not have a low cost strategy. The services which they outsourced services like office messengers, business continuity plan, job evaluation, job satisfaction surveys, sale of bitumen drivers and cleaning while the company concentrates on its core business of providing petroleum products to Kenyans. The respondents indicated that the adoption of the lowest product or service unit costs by the company withstood competition as the products can be sold to market in the shortest time possible, provision of petroleum products at affordable price and the increase in profitability being an indication of reduced costs.

The company commands currently a market share of 8% which is relatively lower as compared to other players in the industry. The company however, plans to achieve a 13% market share by the end of 2012 and these can be achieved as the company has laid down an elaborate plan which involves strategies targeting all departments to work towards achievement of the objective.

### 4.3.2 Differentiation Strategy

The concept of differentiation focuses on firms making products that appear different from their competitors. This is in order to make them earn a competitive advantage over others. Since the oil products are the same and the current regulation of oil prices then the oil companies should look other ways of differentiating themselves so that they can attract customers. Formulation of differentiation strategies, results in making a firm’s products more competitive, in such a competitive market. This involves making a product slightly different from other similar products, by varying certain features. The findings on the usage of differentiation strategy by the company was that the company uses the strategy most of the times in terms of their product quality such as supadel HD 40 which is of superior performance and of high quality, the company is also known for providing high quality petrol and diesel which are free from contamination. The unique branding of the Companies products e.g. supa gas which is the mark of quality, purity and integrity thus resulting in reduced price elasticity, firm reputation on provision of world class customer service in all their service stations. Price differentiation, categorizing its customers according to their needs, market segmentation and engaging in infrastructure development. The company has achieved competitive advantage over its rivals because of its ability to create barriers by building customer and brand loyalty through quality offerings, advertising and marketing techniques. The company has also ensured that the employees are always trained so as to improve service delivery and at the same time the corporation has also won the trust of the shippers and have actually signed hospitality arrangements where the company is the custodian and manager of their stocks and at the same time the company has invested in mobile stations which are expected to be in the market soon are also used company to differentiate themselves. The use of various differentiation attributes will make the company customers to perceive it to have properties which make it distinct from other oil marketers' products or services. The company recognizes that the customers are too numerous and are widely scattered with heterogeneous needs and adequate spending power, for them all to prefer the same product or service will move products from competing based primarily on price to competing on non-price factors, or promotional variables.

The results indicates that the company has been able to achieve competitive advantage over its competitors by developing customer loyalty especially on supa gas which most of customers prefer the product and also the company has enhanced its marketing strategy especially for newly introduced fuel card which has attracted huge customer base from both corporate and individual clients. The company also engages in corporate social responsibility so as to give back to the society for supporting the company. The company ensures successful implementation of differentiation strategy through aggressive marketing on all new products that causes the customer to perceive that the product is unique, customer classification on their needs, continuous training of its staff and continuous improvement/re-engineering of its process, investing in quality technology and equipments in all facilities, sourcing the oil products competitively and pricing them in a friendly way that wins the customer trust thus guaranteeing repeat purchase, working towards surpassing competitors in service delivery and staff involvement so that they can own the various strategies and see them to completion. The successful implementation of the strategy will attract and retain customers and therefore increasing the market share of the company.

The respondents indicated that the company has the resources and skills which include strong marketing aspects, engineering skills, technological leadership which process all documents including the loading documents thus preventing fraud in the company, investment in the loading facility to the extent that it is the best in East and Central Africa as it is automated and fast, outsourcing of distribution channels and the contraction of trucks to provide services to the customers, corporate reputation for quality, reliable and durable products and strong distribution channels. These will ensure that the company competes effectively with the others in the market.

The service offered by the company which provides customer loyalty includes the fuel card where customers are encouraged to check their fuel consumption online and be able to monitor and plan their consumption. The company also ensures that there customers are accorded good customer service.

The results indicates that the company has a differentiated delivery system which they derive from the service charter which is to deliver their products as per the promise, delivery of products to customers within twenty four hours irrespective of the distance, dedicated workforce which ensures that customers gets the best services and taking seriously the feedback from the customers on how to improve the company services.

The respondents indicated that the message of differentiation reaches the clients as the customer's perceptions of the company are important and suggest bending the customer's will to match the company's mission through differentiation. The company disseminates the message through media briefings by the top management of the company, referrals and pubic relations engagement by the company employees.

### 4.3.3 Focus Strategy

The respondents indicated that the company focuses only on local market in order to compete effectively with other companies. This strategy will ensure that the company analyzes only the local market dynamics which inhibits their competitiveness. The company has segmented the local market according to their various needs and wants into; consumer industry this are the major manufactures who uses products like diesel and fuel oil in bulk, government institutions who buy the various products e.g. petrol and diesel for their own consumption, resellers who are mainly the wholesalers who buy products in huge volume to re-sell in small volume to independent dealers. The corporations mandate is to provide to provide oil products to all citizens of the country and therefore, they take into consideration all customer segments which are geographical reach. The company has embarked on a project dubbed Eye Kenya which supplies kerosene to slum areas of kibera, mathare and kawangware at a cheaper price of ksh 78.00 per litre to enable them to afford the product.

The company does not use the strategy to choose niches where competition is weak because weak competition in a particular area could be due to several factors some of which could be beyond the company's ability to change and therefore they believe in equal competition irrespective of the market segment or geographical area. However, weak competition will be an added advantage in terms of realizing the benefits faster by reigning in those opportunities.

The results on the organizations focus strategy depends upon the costs being minimal and profits being high, untapped markets, opportunistic markets where there is potential for growth and sustainability, mandate of the company and the usage in areas that have not been thought about before like the offshore jetty deep in the Indian ocean. The result indicates that the strategy being adopted by the company depends upon a factor which needs careful analysis in order to ensure success of the strategy.

Market development and market penetration are important to the organization as it will enable the company to develop non existent markets at the same time they are penetrating the markets which have been initially occupied by the competitors thus increasing the market share of the companies. The company is developing and penetrating markets through; aggressive marketing of LPG gases, supply of petroleum products to mobile petrol stations in areas which have not been served by any other company, venturing into the cards market, anchoring the mindset of loyalty to the customers and improving service delivery in order to attract customers.

The respondents indicated that the focus strategy pursued by the company is most effective as the company ventures even areas where the competitors are present but with improved products and change in consumption pattern when the distinctions has been recognized by the customers. The company uses focus, differentiation and low cost strategies in conjunction.

### 4.3.4 Resource Based Strategy

The respondents indicated that their company uses the strategy in order to gain competitive advantage over its competitors by investing in modern loading facility which is the fastest in East and Southern Africa and this has given intense competition to multinational like total, kobil and shell who are still operating their loadings manually and most of the shippers have preferred to sign hospitality agreement with National oil since their loadings will be done faster. The respondents also cited the supa system (oracle) which is faster and accurate in generating the loading documents and thus prevents any fraud in the Company. In human resources the company considers its employees as a useful resource since they invest in training of its staff and even sending their geologists for overseas training. Since it is a government owned institution, they can negotiate for credit advancement either from the government or financial institutions in order to improve service delivery to their customers. The competitive value of resources can be enhanced or eliminated by changes in technology, competitor behavior, or buyer needs which an inward focus on resources will overlook.

The resource-based view emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance and in these case the company has enhanced competitive value of resources by developing the human resource working in the company and sourcing of financial resources from financial institutions. The respondents indicated that there are imitators in the oil industry who are pursing the retail expansion which was pioneered by the company, however they have not been able to erode the market position of the firm thus guaranteeing sustainability of the strategy to the company.

Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. However, the company has limited resource heterogeneity and therefore the other oil marketers have access to other resources which in essence will not be sufficient to gain competitive advantage as the resources are not valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

## 5.1 Summary

The results from the study indicates that the company uses the low cost strategy in order to gain competitive advantage over their competitors by availing the oil products to resellers, independent and commercial customers by opening more channel. The regulation of the petroleum industry by the government does not give the petroleum companies the chance to charge lower prices, however the company has cut an hinge in the industry by selling the liquefied petroleum product at a cheaper price than its competitors, tight control of costs and overhead, minimization of operating expenses, reduction of input costs, tight control of labor costs and lower distribution costs.

The management and employees of the company have a low cost strategy mindset which they all work towards achieving the objective of minimizing the costs during the staff forums. The company has achieved low cost strategy by ensuring that there is competitive sourcing of products through tendering process, managing the corporations resources efficiently by sensitizing the staff on minimizing wastage, ensuring that the prices are sourced at lowest price possible, putting in place business planning committee who normally plan where to procure the cheapest products in the market and at the same time have a pricing committee who normally meet daily to review the market prices and ensure that their prices are lower than the competitors.

The findings indicates that the company has outsourced services which they do not have low cost which includes office messengers, business continuity plan, job evaluation, job satisfaction surveys, sale of bitumen drivers and cleaning. The adoption of the lowest cost strategy by the company withstood competition because the company's profits has been increasing and also ensuring the products to the market at the shortest time possible. The cost reduction measures by the company will ensure that their costs are kept at minimal levels as possible and this was achieved in the company by recycling used envelopes for internal communication, switching off their lights during the day and engaging in long term investment in projects that will result in reduced costs.

The company does not make a virtue out of low cost product features because by over emphasizing it, the quality of the products can be compromised and therefore the company concentrated on strategies which gives the company competitive advantage over its rivals. The company commands currently a market share of 8%, however they have set their sights at achieving 13% by the end of the year 2012. The respondents indicated that the company has differentiated themselves against other companies in the oil industry in terms of their product quality and services, unique branding which is the mark of quality, purity and integrity thus resulting in reduced price elasticity, firm reputation, customer service, price differentiation, categorizing its customers according to their needs, market segmentation and engaging in infrastructure development.

The results indicate that the company has been able to achieve competitive advantage by building customer and brand loyalty through quality offerings, advertising and marketing techniques. The results indicates that the company has ensured successful implementation of differentiation by marketing aggressively on all new products that causes the customer to perceive that the product is unique, customer classification on their needs, continuous training of its staff and continuous improvement/re-engineering of its process, investing in quality technology and equipments in all facilities, sourcing the oil products competitively and pricing them in a friendly way that wins the customer trust thus guaranteeing repeat purchase, working towards surpassing competitors in service delivery and staff involvement so that they can own the various strategies and see them to completion.

The findings indicates that successful implementation of the strategy dependent on resources and skills such as strong marketing capabilities, product engineering skills, technological leadership which process all documents including the loading documents thus preventing fraud in the company, investment in the modern loading facility to the extent that it is the best in East and Central Africa as it is automated and fast, outsourcing of distribution channels and the contraction of trucks to provide services to the customers, corporate reputation for quality, reliable and durable products and strong distribution channels. The respondents indicated that the company offers unique services which provide high customer loyalty through fuel card services and good customer services. The company has a differentiated delivery system which ensures delivery of products to customers within twenty four hours irrespective of the distance, dedicated workforce which ensures that customers gets the best services and taking seriously the feedback from the customers on how to improve the company services. The company disseminates the message of differentiation through media briefings by the top management of the company, referrals and pubic relations engagement by the company employees.

The respondents indicated that the company focuses only on local market which will enable them to effectively compete locally with other companies. The company does not identify a particular segment of the market because the corporations mandate is to serve the whole country. The company does not use the strategy to choose niches where competition is weak because weak competition in a particular area could be due to several factors some of which could be beyond the company's ability to change and therefore they believe in equal competition irrespective of the market segment or geographical area. The respondents indicated that the company's focus strategy depended on costs being minimal and profits being high, untapped markets, opportunistic markets where there is potential for growth and sustainability, mandate of the company and the usage in areas that have not been thought about before like the offshore jetty deep in the Indian ocean.

The results indicates that market development and penetration was an important focus strategy as it enables the company to penetrate markets which they have not been doing well and at the same grow the market share where they have been having a small market share. The respondents indicated that the focus strategy pursued by the company is most effective as the company ventures even areas where the competitors are present but with improved products and change in consumption pattern when the distinctions has been recognized by the customers.

The company uses the resource based strategy by sourcing for more financial resources and investing in technology, infrastructure and human resources. The company has to contend with imitators who have followed the policy which has been introduced in the company where there is retail expansion and since there is no uniqueness in the kind of resources which the company has, then they will not be able to gain sufficiently competitively.

## 5.2 Conclusion

The results from the study indicate that the company has adopted the three strategies in order to be able to compete effectively with other oil marketers. The adoption of low cost strategy has seen the management and the employees of the company come up with ways of reducing costs by use of various techniques and at the same time they outsource services which could otherwise have added costs to the company. The adoption of low cost strategy by the company has withstood competition which has given them the morale to seek for more ways of ensuring that they reduce some costs further. Although the company does not command a large market share, they have put in place strategies to ensure that they achieve the targeted market very soon.

The company has differentiated themselves from the other competitors by use of various strategies which has worked for the company as it has been able to increase their customers thus resulting in more profits to the company. The organization has ensured successful implementation of the strategy by adopting taking into consideration branding of its stations which a key resource to achieving competitive advantage. The company focuses only on providing services locally and these has worked so far for the company as they have to study only the local dynamics in the oil industry which is not expensive and make decisions which ensures the growth of the company. Although the company uses resource based strategy to gain competitively, there is no significant difference on the kind of resources which the company has at its disposal as compared with the only difference being the preference which they receive from the government for being a state corporation.

## 5.3 Recommendation for the Study

The findings from the study indicates that the company uses the low costs strategy in order to gain competitive advantage, however the company has not managed to reduce sufficiently its overhead costs and it is recommended that they work towards streamlining its operations so that they can reduce the costs to manageable levels. The company has also set a target for market share which they want to achieve; it is recommended that in order to achieve the set target the company needs to ensure that they bring everybody on board so that the whole organization works towards the objective.

Although the company has managed to differentiate themselves from other oil marketers, differentiation alone without marketing of the products will not attract sufficient customers and it is recommended therefore that the company markets their products so that they can attract more customers. The company should also take the opportunity given by the government to them to import the oil products directly so that they can also differentiate themselves on the price they charge. The focus by the company currently on local market will ensure the company builds its market share first before venturing to other countries; it is however recommended that the company exploits the potential to grow its market share by not segmenting the market but venturing into the competitive market. Although the company uses resourced based strategy, there is little difference on the kind of resources which differentiate the oil marketers and it is recommended that the company source for resources which will ensure that the company can serve the whole country and at the same time increase funding to the marketing department so that they can adequately market the company's products and also increase the service stations in the country.

## 5.4 Recommendations for further Research

The study confined itself to National Oil Corporation of Kenya. This research therefore should be replicated in other oil companies in order to establish whether there is consistency among the oil companies on the competitive strategies adopted.

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# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

University of Nairobi

School of Business Studies

Dear Respondent,

I am a postgraduate student in the School of Business Studies, University of Nairobi, conducting a management research paper on competitive strategies of oil firms under Government control. A case study of National Oil Corporation.

In order to undertake the research, you have been selected to form part of the study. This letter is therefore to request your assistance giving me information to the attached interview guide. This information will be treated with strict confidence and is purely for academic purposes. A copy of the final report will be availed to you upon request.

Your assistance and co-operation in this exercise will be highly appreciated.

Yours faithfully,

| | |
|---|---|
| Kosom Patricia | F. Muindi |
| **MBA student** | **Supervisor** |

# APPENDIX II: INTERVIEW GUIDE

**Goals of the interview process**

1. To determine the competitive strategies adopted by National Oil corporation.

**Part A: Respondents and Organizational Background**

- How long have you worked in the company?
- What is your educational background?
- How long has your organization been in existence?
- How many service stations do you operate in the country?
- Does your organization constructs its own service stations or franchise/lease?

## Part B: competitive strategies

**a. Low cost strategy**

1. Does your organization focuses on providing goods or services at a lower cost than the competitors?
2. Does the management of National Oil have a low-cost leadership mindset?
3. How have the management of National Oil achieved the low cost-leadership?
4. Does the organization have a workforce committed to the low-cost strategy?
5. Has the organization outsourced or discontinued any services which they do not have a low cost strategy?
6. Has the adoption of the lowest product or service unit costs by the organization withstood competition?
7. Does the firm have a strategy for continuous search for cost reduction in all aspect of their business?

8. Does the organization promotional strategy often involves trying to make a virtue out of low cost product features?

9. Does National Oil have a market share advantage in order to ensure the success of the strategy?

**b. Differentiation strategy**

1. How has the organization managed to differentiate itself from competitors?

2. Has the organization thought of using the following services to differentiate itself? Reliability, brand image, firm reputation and customer service.

3. Has the firm been able to achieve competitive advantage over its rivals through building customer and brand loyalty through quality offerings, advertising and marketing techniques?

4. How does the organization ensures successful implementation of the differentiation strategy?

5. Does the organization have resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels in order to ensure successful implementation of the strategy?

6. Does the organization offer a unique service which provides high customer loyalty?

7. Does the organization have a delivery system that ensures that the organization differentiates itself from the competitors?

8. Does the message of differentiation reach the clients in order to be effective?

**c. Focus strategy**

1. Does the organization do the identification of a particular customer segment or geographical market?

2. Does the organization use the strategy to choose market niches where competition is the weakest?

3. What does the organization focus strategy depends upon?
4. Is Market penetration or market development an important focus strategy to the organization?
5. Is focus strategy pursued by the organization most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms?
6. Does the organization use focus-based strategies only or in conjunction with differentiation or cost leadership generic strategies?

**d) Resource based strategy**

1. Does the company have enough resources and capabilities to compete with other companies?
2. How has the company enhanced the competitive value of resources?
3. Are there imitators or rivals to erode the market position of a firm?
4. Is your organization heterogeneous with respect to the bundle of resources that they control?
5. Does resource heterogeneity persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms?
6. Is your firm resource valuable, rare, and imperfectly imitable and substitutable?