

EFFECTS OF STRATEGIC PLANNING ON THE PERFORMANCE OF PETROLEUM FIRMS IN KENYA: A CASE OF SELECTED FIRMS IN KENYA

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ABSTRACT

The purpose of this study was to investigate the effects of strategic planning on the performance of petroleum firms in Kenya with a focus on Total, KenolKobil, Shell, OiLibya and NOC Kenya. The specific objectives were to assess the effects of government policy, innovativeness, supplier relationship and technology on the performance of petroleum firms in Kenya. This research problem was studied through the use of a descriptive research design. This study concentrated on the senior managers and other managers in different levels of management at the selected petroleum firms. Stratified random sampling technique was used to select a sample of 10% (53 respondents) was selected. The study concludes that the strategic planning approaches adopted by the petroleum firms focus on increasing their market share, providing an enhanced distribution infrastructure as well as developing long term financing for the strategic goals. From the findings, privatization of government stakes, legal compliance, licensing, level of awareness, price controls and interest rate regimes affects the strategic planning hence the performance of the petroleum firms. Innovativeness through product innovation, pricing strategy and market entry factors affect strategic planning and hence the performance of the petroleum firms. The study concludes that supplier relationship in strategic planning affects the performance of the petroleum firms. Technology affects competitiveness, customer satisfaction, process improvement and product diversification. It is necessary to adopt a minimalist government intervention approach in oil production and distribution.

Key Words: *Strategic Planning, Performance, Innovativeness, Government Policy*

Introduction

For a firm to survive and prosper, a strategy is needed. Due to the advancement of business operations in various companies, strategic management has become a very vital and integral tool to every firm's success. Johnson and Scholes (2002), view strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment, and fulfill stakeholders' expectations. Many key strategic plans firms make involve discrete choices. These plans are fairly complex and typically involve the consideration of a number of demand, cost, and competitive factors. Johnson, Scholes and Whittington (2005), note that strategic drift occurs when the organization's strategy gradually moves away from relevance to the forces at work in its environment. Effective strategic planning can transform the performance of an organization, make fortunes for shareholders, or change the structure of an industry (Johnson and Scholes, 2002). Ineffective strategic planning can bankrupt companies and ruin the careers of chief executives.

Strategic planning implies an attempt to alter a company's strength relative to that of its competitors, in the most efficient and effective way. Strategic planning focuses on the direction of the organisation and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Harrison and Pelletier, 2000). It is very difficult, if not impossible, to translate the contents of organisations' strategy to a set of simple questionnaire constructs, except at a very simple and superficial level. Similar arguments apply to the deployment of strategy. On the other hand, it is logical to assume that the process has an impact on both content and deployment. In fact, this point is supported by the literature. Mintzeberg, Lampel and Ghoshal (2002) contended that while both content and process are separate elements of strategy formulation, they are highly interdependent. The interrelationship is seen as so significant that a consideration of the content of strategy in the absence of the strategic process means that only a limited view is obtained. Moreover, others contend that it is impossible to consider one without the other. Clearly, a strategy is much more than the content of a written document – it also encompasses the processes required in the formulation and deployment of the strategic plan. Accordingly, strategy can be considered from content or a process viewpoint. The content relates to the distinct elements of the strategic plan which differ from firm to firm. On the other hand, the process relates to the mechanisms for the development of the strategic plan and its subsequent deployment.

Problem Statement

The oil industry in Kenya contributes over 20% of the GNP (KNBS, 2012; ROK, 2011). The strategies adopted by the petroleum firms 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. Petroleum firms have resulted to various strategic plans aimed at gaining market share, profitability and survival in the competitive industry. For instance, the National Oil Corporation Strategic Plan for the period July 2008 to July 2013 is centred on the Vision 2030

medium term plan based on the premise that predictability in the supply and pricing of petroleum products in the country will provide the environment necessary for the attainment of the Vision 2030. Despite these initiatives, big companies (including Caltex/Chevron, British Petroleum/BP, Mobil, Agip and Esso) are exiting Kenya's oil market at a very alarming rate citing reduced profit margins, increased competition, official price caps and very stringent market & non market tariff barriers (ROK, 2012). Petroleum firms' strategic plans made within a process that commences with the setting of strategic objectives, and momentarily culminates with the attainment of a given objective preparatory to continuing in pursuit of another objective, are more likely to have successful outcomes. Ensuring efficiency in implementation of strategic plans and competitiveness in petroleum firms is central to attainment of the objectives of Kenya's Vision 2030. The extent to which these objectives can be realized on a sustainable basis and in an environmentally sound manner is dependent on the degree and strategic plans adopted by the firms within which this critical factor of production is made affordable (KNBS, 2012; ROK, 2011). To this end most of the firms have been recording unexpected outcomes despite having laid down strong strategic plans anticipating excellent results. According to Dyer and Blair (2012), Total Kenya's net loss for FY11 was exacerbated by the Kenya shilling's depreciation during in year 2011/2012, as well as the sharp rise in interest rates which bore down on the company's debt. Both TKNL and KNOC experienced erratic movement in net interest income and bottom line growth during this period. This was largely occasioned by the volatility in crude oil prices, which dampened both the gross profit and net income margins. Additionally TKNL had 175 service stations down from 180 stations in year 2011 (Dyer and Blair, 2012). These outcomes are greatly attributed to the ineffectiveness of the strategic plan in the firms.

In spite of having strategic plans in the general management of organizations, many of the strategies formulated in petroleum firms in Kenya have not achieved the desired goals. The failure to execute is a major concern of executives because it limits organizational growth, adaptability and competitiveness. Despite the fact that strategic plans seem to affect firm performance in dynamic and competitive environments like in the Kenyan petroleum industry, there has been little research on strategic plan in the Kenya petroleum firms. As alludes to the above notion, there was need for a research so as to be able to determine and enhance aspects of positive performance within these institutions. Therefore, the purpose of this study was to assess the effects of strategic planning on the performance of petroleum firms in Kenya with a focus on selected petroleum firms in Kenya.

Objectives of the Study

1. To assess the effects of government policy on the performance of petroleum firms in Kenya
2. To find out how innovativeness affects the performance of petroleum firms in Kenya
3. To establish the influence of supplier relationship on the performance of petroleum firms in Kenya
4. To investigate the effects of technology on the performance of petroleum firms in Kenya

Literature Review

Over the past decade, researchers have investigated the effects of formal strategic planning on financial performance. Many have concluded that there is no consistent association between the strategic planning process and performance. Formal strategic planning links short, intermediate and long-range plans. A recent study by Gibson and Cassar (Gibson & Cassar, 2005) cast doubt on the causal relationship between planning and performance, even in small firms. Once the current measures are identified, consider how those measures might be changed to provide a clearer picture of the results achieved, and how those results relate to the mission and stakeholder expectations. Performance of an institution can be measured in terms that are both relative and absolute. Previously, performance was taken for granted, it is until recently that institutions have seen the need, the importance and value of strategic planning practices. Some of these institutions are adopting these practices, but how they do it is still not clear.

The available literature analysis tends to support a positive relationship between strategic planning and performance. Seventy nine per cent of the studies in the available analysis identify a positive relationship, which tends to suggest that there is broad support for the performance impact of strategic planning. Evidence in favor of this relationship was discovered in studies of small enterprises from different industries and different regions, and using different indicators for performance such as survival, turnover growth, employment growth, and reputation (Ansoff *et al.*, 1976). Organizations are increasingly embracing the practice of strategic planning in anticipation that this will translate to improved performance. Strategic planning does not attempt to make future decisions or even forecast future events. It need not replace managerial intuition and judgment with massive, detailed sets of plans.

Strategic planning processes should be designed to fit the specific need of the organization. It is argued by Marginson (2002) and Ambrosini et al (2003) that every successful model must include vision and mission, environmental analysis, setting objectives and strategic analysis choice. Identification of the institutions vision and mission is the first step of any strategic planning process (Helium 2008). Robbins (2003) in a study conducted in USA reveals the positive effect of strategic planning to performance. Kraus, Harms and Schwarz (2006) found that planning formalization have positively effect on performance in small Austrian enterprise. While, Falshaw et al. (2006) found no relationship between formal planning process and company performance in UK companies. In contrast, Glaister et al. (2008) found strong positive relationship between formal planning process and performance in manufacturing Turkish companies.

Elbanna (2008) emerged that strategic planning practice positively related to strategic planning effectiveness in privately owned Egyptian companies. Griggs (2002) points out that empirical research in small firms normally employed uni-dimensional measures such as the presence or absence of planning, its degree of formality, or the length of the planning horizon. Griggs (2002) in his research on small-scale firms used five strategic planning system characteristics: the use of strategy tools and techniques, attention to internal facets, attention to external facets, functional

coverage and involvement of key personnel in the planning process. Thompson, Strickland and Gamble (2007) postulate that the essence of good strategy making is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition, and internal difficulties.

Johnson, Scholes and Whittington (2005), note that strategic drift occurs when the organization's strategy gradually moves away from relevance to the forces at work in its environment. Strategic business planning cannot be expected to cure all that ails an organization i.e. address other shortcomings of the management process, but can best be seen as a partial solution to management problems. Strategic planning, or any other management technique is of limited value by itself, only a partnership with all parts of the management particularly execution, controls and rewards can result in synergy and lead to substantial advancement. In their survey to see how successful companies translate their strategies into performance, Mankins and Steele (2005) observed that companies typically realize only about 60 percent of their strategies potential value because of defects and breakdowns in planning and execution. This study concentrates on establishing the effects of government policy, innovativeness, supplier relationship and technology on the performance of petroleum firms in Kenya.

Research Methodology

This research problem was studied through the use of a descriptive research design. The population of this study was the managers of effects of strategic planning on the performance of petroleum firms in Kenya with a focus on selected petroleum firms in Kenya. Stratified random sampling technique was used to select the sample. This technique was selected because it produces estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. Primary data is gathered and generated for the project at hand and was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies.

Research Results

Inferential Analysis

Inferential analysis was utilized in this study to determine if there is a relationship between an intervention and an outcome, as well as the strength of that relationship. The inferential statistics analysis aimed to reach conclusions that extend beyond the immediate data alone between the independent variables in this study and the dependent variables which involve a coefficient of determination. The study conducted inferential analysis to establish the relationship between the independent variables in a multiple regression analysis. The independent variables in this study included government policy, innovativeness, supplier relationship and technology while the dependent variable was performance.

Pearson's Coefficient of Correlation

To quantify the strength of the relationship between the variables, the researcher used Karl Pearson's coefficient of correlation. The researcher used the Karl Pearson's coefficient of correlation (r) to study the correlation between the study variables and the findings were as in table 1.

Table 1: Coefficient of Correlation

Factors	Firm performance	Government policy	Innovativeness	Supplier relationship	Technology
Firm performance	1	.119	.103	.242	.435
Sig. (p-Values)		.365	.435	.063	.103
Government policy	.119	1	.097	.362	.461
Sig. (p-Values)	.365		.461	.004	0.097
Innovativeness	.103	.097	1	.213	.213
Sig. (p-Values)	.435	.461		.102	.102
Supplier relationship	.242	.362	.213	1	.123
Sig. (p-Values)	.063	.004	.102		.335
Technology	.435	.461	.213	.335	1
Sig. (p-Values)	.103	0.097	.102	.009	

From the findings shown in table 1, there was a positive correlation between employee performance and technology with a correlation figure of 435, it was clear that there was a positive correlation between the employee performance and supplier relationship as shown by a correlation figure of 0.242, it was also clear that there was a positive correlation between the employee performance and innovativeness with a correlation figure of 0.103 and a positive correlation between employee performance and government policy with a value of 0.119. This shows that there was positive correlation between employee performance and government policy, innovativeness, supplier relationship and technology.

Coefficient of Determination

Table 2: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792	.627	.303	.125

Predictors: (Constant), government policy, innovativeness, supplier relationship and technology.

According to table 2, the four independent variables that were studied, explain only 62.7% of the performance of the selected petroleum firms as represented by the R^2 . This therefore means the four independent variables only contribute about 62.7% to the performance while other factors not studied in this research contribute 37.3% of the performance. Therefore, further research

should be conducted to investigate the other factors (37.3%) that affect performance of petroleum firms.

Multiple Regression Analysis

Table 3: Multiple Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.224	.312		4.358	0.000
Government policy	0.217	0.1440	0.185	0.776	0.038
Innovativeness	0.118	0.0847	0.023	0.406	0.046
Supplier relationship	0.299	0.0715	0.235	2.793	0.044
Technology	0.248	.107	.145	1.378	0.012

Dependent Variable: Performance of petroleum firms

The researcher conducted a multiple regression analysis so as to relationship between four independent variables (various dimensions of strategic planning) and performance of petroleum firms in Kenya. The regression equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$) now becomes:

$$Y = 1.224 + 0.217 X_1 + 0.118X_2 + 0.299X_3 + 0.248X_4$$

Whereby

- Y = Performance of petroleum firms
- X₁ = Government policy
- X₂ = Innovativeness
- X₃ = Supplier relationship
- X₄ = Technology

According to the results shown in table 3 and the regression equation established, taking all factors (government policy, innovativeness, supplier relationship and technology) constant at zero, the performance of petroleum firms in Kenya realized would be 1.224. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in government policy lead to a 0.217 increase in performance of petroleum firms in Kenya. A unit increase in innovativeness will lead to a 0.118 increase in performance of petroleum firms in Kenya; a unit increase in supplier relationship will lead to a 0.299 increase in performance of petroleum firms in Kenya; whereas a unit increase in technology will lead to a 0.248 increase in performance of petroleum firms in Kenya. These results infer that supplier relationship contributes more to performance of petroleum firms in Kenya, followed by technology and government policy, while innovativeness contributes the least to performance of petroleum firms in Kenya.

Discussions and Conclusions

The study concludes that the strategic planning approaches adopted by the petroleum firms focus on increasing their market share, providing an enhanced distribution infrastructure as well as developing long term financing for the strategic goals. The study also uncovered that the various strategic decisions made are aimed at participating actively in oil and gas exploration activities, provision of the national strategic reserve and developing organizational and operational excellence. These strategic planning aspects in turn affect profitability, reduction in employee turnover as well as growth in market share and new products.

The study deduced that government policies affect the performance of this petroleum firms. From the findings, privatization of government stakes, legal compliance, licensing, and level of awareness, price controls and interest rate regimes affects the strategic planning hence the performance of the petroleum firms. The tax policy of the government is viewed as discriminatory hence contributing to the nature of competition, government policies is to foster free and unfettered competition on the assumption that such competition will produce the best result for consumers the lowest and most reasonable prices, the government should establish a legal framework in order to prevent market distortions, ensuring unconstrained access of foreign investors to domestic financial markets and that introduction of suspended duty on refined products imported directly into the country to cushion the refinery from competition from efficient refineries in the gulf region.

Innovativeness is the inclination to participate in innovation, it impacts the scope and extent of innovation activities and finally helps improve performance. Innovativeness through product innovation, pricing strategy and market entry factors affect strategic planning and hence the performance of the petroleum firms. The study cleared that innovations have a positive impact on business performance by leading to a market share increase, through use of innovativeness the firm is able to offer services more professionally than its competitors and is in a better situation to create a sustainable competitive advantage, the need to expand and maintain market share has influenced the firm to invest more in making better use of technological innovations and that innovativeness ensures that the firm offer services and products that are adapted to the needs and wants of focus customers.

The study concludes that supplier relationship in strategic planning affects the performance of the petroleum firms. Accordingly modern and efficient service equipments and supply elasticity affects the performance of the petroleum supplier relationship in strategic planning helps in market segmentation and generating better (new) ways to serve target markets, helps in offering the best service to the markets, improving the mix of target markets as well as identifying better (new) potential markets.

The study concludes that firms in the petroleum industry take up new technology so as to enhance their performance. Technology affects competitiveness, customer satisfaction, process improvement and product diversification. From the results, corporate culture, firms' corporate

direction, appraisal of business environment, identification and analysis of firms' strategic issues, strategy generation, evaluation and selection as well as development of implementation, evaluation & control systems are the major aspects that affect strategic planning and hence the general performance of the petroleum firms.

Recommendations

The study further recommends that since supplier relationship is an aspect of strategic planning that affects performance, the petroleum firms should pay attention to service quality indicators in order to safeguard and improve their businesses. The firms should establish firm procedures of dealing with supplier relationship with regard to the importation process, product quality, as well as materials, equipment and supplies availability. This will enhance efficient service equipments, supply elasticity, demand elasticity, dependable service and consistent in service performance.

The study finally recommends that since technology affects competitiveness, customer satisfaction and product diversification, technological advancements should be embraced within all department of the organization in order to have a uniform outcome and common objective with expected positive outcome all over the organization. As such the technologies adopted should address various aspects like customer security, competitive strength, efficient service delivery, convenient locations, partnerships with several organizations and product development. They should adopt technological tools and techniques that support the sales process, that enhance expanding and maintaining market share, influence the firms to invest more in making better use of technological innovations, they should have a positive impact on business performance by leading to a market share increase.

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