EFFECT OF POLITICAL VIOLENCE DISRUPTIONS ON PERFORMANCE OF THE PETROLEUM INDUSTRY DURING ELECTIONEERING PERIOD

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ABSTRACT
The Kenyan political environment is characterized by frequent changes in government regimes resulting in constant changes in policies and programmes thereby affecting long-term business planning. In the past, business destabilizing events have been experienced during the electioneering period which signifies a change in government. These events formed the motivation to this study which sought to establish the effect of political violence disruptions on performance of the petroleum industry during electioneering period. The study adopted a descriptive, cross-sectional research design targeting senior managers in procurement and supply chain functions in petroleum oil marketing and distribution companies in Kenya. Questionnaires were used to collect primary data through the drop and pick method while emails and calls were used for follow up. The data collected was analysed using SPSS for descriptive and inferential statistics. The study revealed that political violence during the electioneering period have a significant negative correlation with the supply performance of the petroleum industry in Kenya. The study recommended that the Kenya Government should provide adequate security during the electioneering period to prevent political violence and ensure a stable political terrain that promote business growth and development.

Key Words: political environment, performance, petroleum industry

INTRODUCTION
Petroleum products form a very important part of any country’s economy around the world. Different petroleum products are used to accomplish various activities in the economy. Petrol and diesel used for road transport which is a popular mode of transport in many countries across the globe. Diesel is used for production of thermo-power in addition to driving of various industrial machines. Kerosene is an important fuel for domestic use in Kenya particularly for a large population that may not afford LPG gas for cooking. A majority of the people especially in rural parts of Kenya use Kerosene for lighting purpose. The heavy fractions of the petroleum are used for lubrication and tarmacking of the roads. This is a clear indication that petroleum products are crucial for economic development in most countries globally (Ayako, Githui, & Kungu, 2014). In Africa, a few countries produce their own crude oil and even where it is produced it sold in the world markets as a requirement by Organization of Petroleum Exporting Countries (OPEC). Most have to engage in global logistics to obtain the crude oil for refining locally or have to import finished products. Kenya is among the countries that import petroleum products up to port of Mombasa and distribute to different parts of the country for sale by pipeline transport to Kisumu while there is distribution by trucks from deports like Nairobi, Eldoret and Kisumu (Koina, 2016). Political volatility especially in countries where democracy has not matured can cause uncertainty, thus affecting supplies of petroleum products. The petroleum industry is constantly exposed to risks such as political risks, stiff competition and market volatilities among others which can eventually affect the productivity of an organization (Afande, 2015).
In the Vision 2030, the Kenyan government recognizes petroleum and electricity as key drivers of the economy. According to KAM (2014), most households in the country rely heavily on petroleum products as sources of energy such as lighting and running businesses. With the critical role that petroleum products play in enhancing economic development, there is need to ensure that there is efficient and effective flow of the products through the entire supply chain (Suraw & Kariuki, 2018). This study was supported by the political economy.

**Political Instability**

Political environment is described as the persistent pattern of human relationship that involves control, influence, power, or authority (Bøe & Jordal, 2016). The political environment refers to the actions taken by the government, which potentially affect the daily business activities of any business or company (Kaplan & Akçoraoğlu, 2017). Such actions occur on a local or international scale depending on the governmental institution's authority. Political system, political parties in power, political parties in the opposition, political maturity of the parties, number of political parties, political awareness of people, political stability and the like have great impact on the business environment in a country’s political stability which is a basic requirement to success regardless of the industry (Mohsen, 2014).

The factors that shape and influence the country’s political environment include consumers, households and communities; the electoral legislation and administration of justice as well as discipline of law enforcement agencies; the economic impact in terms of taxation, government spending, general demand, interest rates, exchange rates and global economic factors; political and government policy; rapid technological changes that also affect production processes and product innovation in business; among others (Kabiru, 2016). The dynamic business market competitions, new technologies which change and produce new products with the introduction of new government legislation are some of the factors that influence political environment. Other factors that affect political environment include ethnicity, nature of political parties, personality of individual prospective politicians and in some cases religion (Michelle, Dathorne, Tsocanos, & Trask, 2013). Political environment also affect international markets, which often keep changing from time to time depending on the type of business products as the customers always tend to develop new needs and wants.

**Supply Chain of Petroleum Companies in Kenya**

Supply chain is the process a product is made available to different people and involves all the activities and resources that are needed to for ensuring that the product is available to the final consumers. The process includes a collection of logistics and transport chains that connects the entire process from extracting the raw materials to the consumption of the end product (Chenge, 2014). The flow of products at the supply chain level are organizational in nature, implying that they reflect a sequence of tasks required to make a product available, including where and how they are undertaken. Supply chains regardless of the variations in market demands and operating challenges have to make decisions concerning five main areas: production, inventory management, location, transportation of products and information (Maina & Gathenya, 2014).
The supply chain of the petroleum products includes three main activities. First, the upstream activities include exploration and production of crude oil, the procurement of the crude by different users and the shipment to the different users. The internal organizational supply chain activities would consist of the processing of the crude oil to produce refined petroleum products. Finally, the downstream activities include the transportation, marketing, packaging, warehousing and distribution of finished petroleum products. In the context of Kenyan petroleum industry, petroleum products come to Kenya through the port of Mombasa, imported in the form of refined products and as crude oil. The refined products are received by the Oil Marketing Companies (OMC’s), as well as by Kenya Pipeline Company (KPC) or the Kenya Petroleum Refineries Ltd (KPRL). KPC stores and transports the finished products to upcountry destinations. The crude oil is received at the KPRL for processing to various petroleum products based on a processing agreement. The refined petroleum products at KPC, KPRL or at the OMC’s depot are transported by the pipeline or by oil tankers, and distributed to the end users (KPRL 2012).

STATEMENT OF THE RESEARCH PROBLEM

Every country has political risks that vary from one nation to another. The political environment in Kenya is characterized by frequent changes in government regimes resulting in constant fluctuations in government policies and plans that negatively affect long term business planning. Further, party politics commonly accompanied by threats of conflicts and growing ethnic tension among others hinder business patronage and scare away investors. In contrast to other African countries though, Kenya has an advantage of a more stable political and social environment (Wawuda & Mungai, 2016). Since independence; Kenya has experienced different forms of political crises in every election cycle that sometimes degenerate into violent conflicts. This period is generally characterised by slowed productivity with investors adopting a wait and see approach. Political activities have become a major deterrent to the country’s economy. For instance, the last four of six multiparty elections held in Kenya have experienced ethnic rivalries which resulted to increased inflation, heightened political risk and lower value from the labour market with energy diverted to politicking and relaxed enforcement of law among others halting the normal operations of organizations (Rao, 2016). Several studies have been conducted on the petroleum industry both globally and locally. Koima et al. (2010) study on petroleum markets in Sub-Saharan Africa revealed that petroleum products are widely used in most countries and have far-reaching micro and macroeconomic effects. Kieyah (2011) also studied the petroleum industry in Kenya and established that leading petroleum companies have some level of power to influence activities in the industry. Livohi (2012) uncovered supply chain barriers facing the Kenya petroleum sector such as lack of strategic stocks and high cost of petroleum products prices frequent fuel shortage, sub-standard products and diversion of products destined for export back into the country. Literature review indicates that political activities and performance of supply chain of petroleum products especially in Kenya which constantly experiences political vulnerability are under researched. This study therefore sought to investigate the link between political disruptive risks and performance of petroleum industries.
RESEARCH OBJECTIVE

To determine the effect of political violence disruptions on performance of the petroleum industry during electioneering period.

LITERATURE REVIEW

Political Economy Theory

The theory of political economy draws heavily on the subject of economics, political science, law, history and sociology or different closely related branches of economics to explain the politico-economic behaviour of a country. This theory takes into account political factors such as power, class and the social issues of society and tries to understand their effect on the economy (Schnellenbach & Schubert 2015). Production and distribution of goods are therefore meshed in the political structure whereby power, class and social relations play a significant role in the performance.

The theory of political economy now draws heavily on the subject of economics, political science, law, history and sociology or different closely related branches of economics to explain the politico-economic behaviour of a country. By the 19th century, economics took over the field of political economy in which axiomatic methods and fundamental techniques of mathematics were used to understand the functioning of the economy. But as mentioned earlier, the social science of political economy has not lost its weight in today’s world where international trade and finance, and bilateral trade agreements can be analysed using the logic of International Political Economy. This branch mainly draws on Marxian liberalism and realism from the theory of Political Science and Rational Choice assumption and also Game Theory from the field of advanced economics.

For example, free trade between countries or among many countries in a particular region is the result of economic and political considerations. Countries may undertake free trade agreements to promote sale of goods between them which will result in increased export earnings. It may also lead to specialization on the lines of “comparative advantage” and large scale production with falling costs. The benefits of the economies of scale can also be reaped through this process.

In this situation, the theory of “Positive Political Economy” investigates how observed differences in institutions affect economic and political outcomes in various economic, social and political systems. These institutional differences might arise in the polity of a respective economy or any other structural differences in the system. This theory supports this study in terms of how supply chain of petroleum product are complicatedly interwoven in political structures thus increasing risk and consequently cost of production. This affects performance of petroleum companies.

Disruption by Political Violence and Performance

In today’s economy, businesses are subject to a number of external factors that are not within the direct control of a company, but can still have enormous effects on the company’s
decision-making, planning, and overall success of the business. Political violence is an endemic feature in many developing countries. According to Strauss and Taylor (2009), 58 percent of elections in Sub-Saharan Africa during 1990 to 2007 involved some form of violence. Among many of these outside factors is terrorism defined as the unlawful use of violence and intimidation, especially against civilians, in the pursuit of political aims. The human cost of such violence can be catastrophic. In addition to the tragic human toll, such political violence has important economic implications. One such implication is its effect on supply chain processes. It is the indirect effects of terrorism that create the most significant potential threat to the activities of businesses and their supply chains (Chenge, 2014).

Wesonga (2016) critical reviewed the effects of political risk and macroeconomic factors on stock market performance in Kenya. The study was undertaken due to the country’s increasingly volatile political environment following the 2007/2008 political violence that rocked the country as a result of the fiercely contested presidential elections in addition to the erratic movement in key macroeconomic variables in the Kenyan economy. Using a descriptive research design, the study examined all the companies listed at Nairobi securities exchange by employing the monthly secondary data from January 2000 to May 2013; the two leading indices, that is, NSE all share index and NSE 20 share index were used as the representatives of the returns at NSE. The findings showed political risk had a statistically significant effect on the NSE performance. Based on the results, the researcher recommended that investors at NSE pay attention to both political risk due to the significant effect it has on the market performance while the government and policy makers should ensure stability in political and macroeconomic environment as this is important for the overall performance of the stock market in Kenya.

Ntabo (2015) analysed the effect of macroeconomic factors and political events on the performance of NSE in Kenya covering the period from January 2000 to December 2014 using inflation, exchange rate, money supply, 91-Day Treasury bill and political events represented using dummy variables. The regression results showed that exchange rate, money supply, 91-Day Treasury bill and political events were significant except inflation. Money supply and political instability incidents showed a positive and strong correlation to NSE. Therefore, a joint effort from individuals, stakeholders, economists, investors and government is required to secure effectiveness of the financial market in Kenya since financial markets are dynamic, and affected by various macroeconomic factors and some political instability incidents over the recent past like the 2007/2008 post-election violence.

Mwiandi (2014) explored the nuanced relationship between ethnicity and political violence. The study examined secondary data on ethnicity, politics, democratic transition and political violence to understand the nature of recurrent political violence in Kenya. The study found that in periods of political competition such as elections, political elites mobilize Kenyans along ethnic lines, which are perceived to be established voter blocs to ensure a victory to the highest office. The deliberate use of ethnicity is in line with the instrumentalist theory. The study concluded that because ethnic mobilization can be deemed a logical calculation to ensure a win by a Kenyan presidential candidate, it is not a situation that would be easy to change. However, political stability can be achieved by developing cross-cutting loyalties
such as associations with integrative mature political parties, the promotion of national identity and addressing the structural problems such as inequity and disparate access to opportunity

Kituku (2014) attempted to link political regime changes to the performance of NSE. Study findings revealed that, in 2002 the standard deviation was lower and hence stable than all the other periods under study clearly showing that between the estimation period the political regime had a positive impact on the market and hence the NSE index. In 2007 the standard deviation was high indicating that there was high volatility in the market hence the regime had a negative impact on the NSE index. The market was stable before and after the regime in 2013 but was affected slightly when the petition from the rival regime was presented though afterwards it stabilized. The rise in the market performance after 2002 and 2013 followed the smooth transition of the political regime to the new government. This study therefore concluded that the political regime changes have both a positive and negative impact on the stock market.

Menya and Lubaale (2012) studied conflict and violence in Kawangware, Kibera, and Mukuru settlements in Kenya. The study identified political violence as the most common type of violence. From the study, political violence in Kenya is mostly motivated by inequity in access to resources and ethnicity. From the findings, it was recommended that violence hotspots should be identified and improvement of slum conditions to cab violence.

**RESEARCH METHODOLOGY**

This research adopted a cross-sectional research design. Cross-sectional surveys do offer the opportunity to assess relations between variables and differences between subgroups in a population. This design was appropriate for this study as it allowed the researcher to collect data and assess the effect of political activities on performance of petroleum companies at a given point and time. The study targeted 43 oil marketing firms in Kenya. A sample of 129 respondents was selected through stratified sampling. A census study was used as all the target respondents were included in the study. The study collected primary data using a questionnaire. Collected data was analysed using descriptive statistics and inferential statistics (Linear regression) using the following model.

\[
SCP = \alpha + \beta PV + \varepsilon
\]

Where: \(SCP = \) Supply Chain Performance; \(\alpha = \) Constant; \(\beta = \) Beta Coefficients; \(PV = \) Political Violence; \(\varepsilon = \) error term

**RESEARCH RESULTS**

The researcher distributed 129 questionnaires to the 43 oil companies in Kenya. The study had a response rate of 75.97% which was fit enough for carrying out study analysis. The respondents agreed that tribal rivalries during electioneering period affect the production, distribution and sale of petroleum products in Kenya with a mean of 3.94 and a standard deviation of 1.024. The respondents also indicated that terrorism had a significant impact on the performance of supply chain with a mean of 4.38 and a standard deviation of 0.979.
 Majority of the respondents agreed that electoral violence if not curbed, leads to massive destructions that affect the performance of organizations with a mean of 4.24 and a standard deviation of 0.964. Majority of the respondents indicated that eruption of political violence discourages foreign investment in the petroleum industry in the country with a mean of 3.79 of 0.997. The overall opinion of the respondents was that political violence during electioneering period affects the supply chain performance of petroleum companies as indicated by a mean of 4.05 and a standard deviation of 0.991.

**Indicators of Performance**

Three different indicators were used to measure supply chain performance of petroleum companies in Kenya. Namely; supply chain flexibility performance, supply chain resource performance and supply chain output performance. This was done to accurately measure all aspect of supply chain performance, that is, efficiency, resource management and output. Respondents were required to rate their companies based on these indicators with specific attributes under each provided. The findings indicate that majority (74.00%) of the respondents believed that the ability of their organizations to respond to and accommodate demand variations during electioneering period was poor with a mean of 2.32 and a standard deviation of 0.809. 10.2% of the respondent rated their companies good in responding to and accommodating periods of poor production performance during electioneering period while 11.2% responding that it was fair. On the organizations’ ability to respond to and accommodate periods of poor delivery performance during electioneering period, majority of the respondent (71.4%) indicated that their companies performed poorly. The organizations performed the least in terms of ability to respond to and accommodate new products, new markets or competitors with majority (64.3%) rating their companies’ poor with a mean of 2.43 and standard deviation of 0.873. The overall opinion of the respondents was that the supply chain flexibility performance during electioneering period was poor as indicated by a mean of 2.31 and a standard deviation of 0.755.

**Supply Chain Resource Performance**

The results indicate that the organization performance in managing the cost of distribution including transportation and handling costs during electioneering period was poor with a mean of 2.43 and a standard deviation of 0.885. 73.5% of the respondents rated their company poor while 12.2% rated them good on the performance of cost of distribution. On management of total cost of manufacturing, including labour, maintenance and re-work cost during electioneering period, 72.4% thought the companies performed poorly while 11.2% of the respondent indicated that they were good representing a mean of 2.39 and standard deviation of 0.795. With a mean of 2.31 and a standard deviation of 0.709, majority (75.5%) of the respondents thought that their organizations performance in managing cost associated with held inventory during electioneering period was poor while 14.3% rated them fair and 6.1% good with a standard deviation of 0.709. The overall opinion of the respondents was that the performance or resources during electioneering period was poor as indicated by a mean of 2.38 and a standard deviation of 0.796.
Supply Chain Output Performance

Respondents were asked how their companies performed in terms of order refill rate, 67.3% thought their performance was poor, and 5.1% thought they performed fairly, representing a mean of 2.52 and a standard deviation of 0.899. On customer response time, majority of the respondent (70.4%) felt that they performed poorly with a mean of 2.47 and a standard deviation of 0.965. With a mean of 2.48, only a small group (11.2%) of the respondent indicated that petroleum companies in Kenya performed well in term of lead time, while 63.3% believed the lead time of these companies was poor during electioneering period. On the rate of customer complaints received by these companies and how they were managed during electioneering period, 20.4% of the respondents rated the companies as fair while 60.2% rated them poor with a mean of 2.49 and standard deviation of 0.922. The overall opinion of the respondents was that the output performance of the organization during electioneering period was poor as indicated by a mean of 2.46 and a standard deviation of 0.926.

Linear Regression Analysis

The study performed linear regression analysis to determine the relationship between the independent and dependent variables. The model summary results of the regression analysis of strikes and demonstrations during electioneering period and supply chain performance in the petroleum industry.

Table 1: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-.871a</td>
<td>.758</td>
<td>.742</td>
<td>.14018</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Political violence

The findings indicate that the value of R is 0.871 which means that political violence during electioneering period has a strong relationship with supply chain performance of petroleum companies in Kenya. The value of R square is 0.758. This means that 75.8% of the variation in the supply chain performance in the petroleum industry in Kenya during the electioneering period can be explained by political violence. 24.2% of the variation in the supply chain performance can be accounted for by other variables.

Table 2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.598</td>
<td>3</td>
<td>1.120</td>
<td>57.268</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>1.798</td>
<td>89</td>
<td>.020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.396</td>
<td>97</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Supply chain performance
b. Predictors: (Constant), Political violence

The results of the ANOVA test for linear regression. The f-value for regression is 57.268 which is significant at p value 0.000. Therefore, at 95% confidence level, the regression
model is significant in predicting the relationship between independent variables and dependent variable.

Table 3: Coefficients of multiple regression

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.186</td>
<td>.496</td>
<td></td>
<td>4.409</td>
</tr>
<tr>
<td>Political violence</td>
<td>-.424</td>
<td>-.062</td>
<td>-.565</td>
<td>-6.836</td>
</tr>
</tbody>
</table>

The study used a regression formula to establish the relationship between the outcomes of the independent variables and the dependent variable. Therefore using the unstandardized betas the regression model would be:

Supply Chain Performance = 2.186 - 0.424 political

According to the regression model, holding all factors constant the supply chain performance of petroleum companies in Kenya during the electioneering period would be 2.186, which is statistically significant with a p value of 0.000. The findings further show that taking all other variables constant unit increase in political violence during electioneering period would lead to a decrease in the supply chain performance of petroleum companies in Kenya by a factor of 0.424.

CONCLUSIONS

From the results of the analysis, political violence during the electioneering period has a significant negative influence to the performance of the petroleum industry. Therefore, the performance of the petroleum industry decreases as the political violence increases during electioneering period.

RECOMMENDATIONS

The study findings indicated that political violence during electioneering period negatively and significantly influenced the performance of the petroleum industry in Kenya. In line with this finding, the study recommends that the Kenya Government should provide adequate security during the electioneering period to ensure stability of commercial institutions and political integration. This is necessary to make the political terrain stable and out of violence for business growth and development. The study also recommends that firms should take mitigation measures against the political violence. This will ensure that their performance is not interfered with during political volatile seasons like the electioneering year.

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