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Effective external stakeholders engagement: a case study for upstream oil and gas sector in Kenya

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Effective External Stakeholders Engagement:

A case study for upstream oil and gas sector in Kenya.

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the thesis itself.

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ABSTRACT

The oil and gas sector remains one of the highly monopolized industries in the world, due to not only the scarcity of these resources. This has led to numerous efforts for organizations the world over to look for ways of generating renewable energy to complement the ever-growing needs for energy. This paper sought to investigate the approaches used in engaging the external stakeholders in extractives industry for upstream oil and gas sector in Kenya. The overarching objective of the study was to examine the challenges and approaches used in engaging the external stakeholders in extractives industry for upstream oil and gas sector in Kenya. Due to the limited upstream oil and gas activities in Kenya, the study adapted an exploratory research design ttargeting a population of similar or analogous infrastructural projects of national importance that have been or are in the process of being implemented. It suffices it to say that upstream oil and gas development involves drilling of wells, construction of oil extraction facilities, crude oil storage among others. This is similar or analogous to other big infrastructure projects like construction of roads, railways or airports. The study recommends effective and all-inclusive stakeholder engagement, while paying very close attention to communities as key stakeholders and this should be done considering political, social, cultural, economic, technological context. Any effective stakeholder engagement process should be specific for specific communities and oil and gas companies must resist the temptation to replicate this process without these socio-political nuances. Communities' should be educated on the importance of the investors and how to treat them, this will make the communities to better understand and appreciate investors seeking to invest in Kenya. However, the government must lead these community engagements to ensure that the expectations of members of communities are properly moderated and the role of the investor clearly understood. Looking at most Vision 2030 flagship projects, very few of them have been execute effectively, on time and budget. From Single Gauge Railway, Kinangop Wind Power Project, Lake Turkana Wind Power, proposed AMU coal-fired plant, among many others, have either stalled or are operation behind schedule. The study concluded that proper external stakeholder involvement led to increased efficiency and reduction of costs in their operations, achieved through greater cooperation and involvement of stakeholders in the realization of strategic objectives of the oil and gas companies.

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ABBREVIATIONS

CNOOC: China National Offshore Oil Company

ICES: Information Centre for the Extractives Sector

IOC: International Oil Companies

KOGA: Kenya Oil & Gas Association

NGO: Non-Governmental organization

O&G: Oil and Gas

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DEDICATION

I dedicate this work to my lovely family: My wife, Beatrice; two daughters, Cindy and Larissa; and my son Asher for the patience, moral and spiritual support throughout the research period.

CHAPTER ONE

INTRODUCTION

1.1Background of the study

The oil and gas industry is usually divided into three major sectors: upstream (or exploration and production- E&P), midstream and downstream. The upstream sector includes searching for potential underground or underwater crude oil and natural gas fields, drilling exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil or raw natural gas to the surface. The upstream oil and gas sector remains one of the highly monopolized industries in the world, due to not only the scarcity of these resources. This has led to numerous efforts for organizations the world over to look for ways of generating renewable energy to complement the ever-growing needs for energy. It is due to these unrelenting efforts to get alternatives for oil and gas that the share of energy from renewable sources in gross final energy consumption has almost doubled in the past few years, from around 8.5 % in 2004 up to 17.0 % in 2016 (International Renewable Energy Agency, 2018). Although it does not necessarily exclude small private entities, a huge share of world market belongs to energy giants like Royal Dutch Shell, Exxon Mobil or BP, which are respectively ranked 1st, 2nd and 4th top revenue corporations by *Fortune Global 500* in 2012, with their aggregate revenue amounting to 1.3 trillion US dollars.

Non-renewable mineral resources play a dominant role in 81 countries, which collectively account for a quarter of world GDP, half of the world's population, and nearly 70% of those in extreme poverty. Africa is home to about 30% of the world's mineral reserves, 10% of the world's oil, and 8% of the world's natural gas (Extractive Industries Overview, 2017). Africa is the world's top producer of numerous mineral commodities and has the world's greatest resources of many more, but most of Africa still lacks systematic geological mapping which could bring light a much greater resource base (Denier, Lucas & Oishi, 2002).

Nigeria depends on oil for approximately 95% of export earnings and 80% of government revenue (Shell, 2010). Just over ten years ago, the Nigerian government executed activist and author Ken Saro-Wiwa and eight of his Ogoni compatriots. Saro-Wiwa and the Ogoni community were campaigning against the oil giant Shell and for a greater share of the country's vast oil wealth (CA, 2004). Their deaths brought the dilemma of the Niger Delta and the role of the oil companies, such as Shell, to the attention of the world. But ten years on the Delta remains caught up in poverty and embroiled in conflict.

According to Acemoglu & Robinson (2015) politics is the determinant of economics of the extractive industries. Political institutions decide what can be bought, sold, and taxed, and create innumerable other rules that define lawful economic behavior. The extractive dynamics that keep many failing nations down are the same ones that can bring an already-inclusive society to its knees. Most failing nations are ruled by a firebrand leader and an oligopoly of rich cronies that dominate industry and trade while quashing the emergence of healthy, competitive markets. 'The growth generated by extractive institutions is very different in nature from the growth created under inclusive institution. Most important, it is not sustainable. By their very nature, extractive institutions do not foster creative destruction and generate at best only a limited amount of technological progress (Acemoglu & Robinson, 2015)

Mbendi (2012) stated that little or no value addition to most of Africa's minerals which are exported as ores, concentrates or metals is quite unfortunate. The continent has a huge potential for mineral based industries as it is extremely rich in mineral resources and a key producer of some of the world's most essential minerals and metals. Regardless of the underexplored nature of

African mineral resources, the continent hosts about 30% of the world's mineral reserves, including 60% cobalt, 90% of PGMs and 40% of gold (Extractive Industries Overview, 2017).

The upstream oil and gas sector is governed by laws such as the Constitution of Kenya, the Petroleum (Exploration and Production) Act, regulations made under the Petroleum Act and the Ninth Schedule to the Income Tax Act. The objective of the Petroleum Act has been to regulate the negotiation and conclusion of petroleum agreements by the Government relating to the petroleum operations. The concern of this discourse would be extraction of oil and gas which is an operation in the upstream sector. The Act stipulates that petroleum operations can only be carried out after obtaining permission from the Minister in a prescribed manner under the Act (Kenya Constitution, 2010).

In Kenya, the policy foundations for oil extraction are entrenched in the Draft National Energy Policy. The Policy is yet to be adopted. It is notable that it seeks to ensure affordable, sustainable and reliable supply to meet national and county development needs, while protecting and conserving the environment. More specific to the sector of oil extraction, the Policy aims to utilize energy as a tool to accelerate economic empowerment for the National and County Governments as well as urban and rural development. It also endeavors to achieve improvement of access to quality, reliable and affordable energy services; creation of a conducive environment for the provision of energy services; development of indigenous energy resources; inculcating of prudent environmental, social, health and safety considerations in energy sector developments; promotion of healthy competition in the sector; establishment of a comprehensive, integrated and well informed energy sector plan for effective development; fostering of international co-operation in energy trade, investments and development; promotion of energy research, development, training and local manufacture of energy plant, equipment, appliances and materials; promotion of appropriate standards, codes of practice and

Kenya is sitting on more oil than previously believed. Following a new discovery, the Canadian energy group Africa Oil added 150 million more barrels of oil to its reserves in the Lokichar Basin in the country's north, 24% more than earlier estimates. According to the results of an independent survey, oil reserves in Lokichar basin now stand at a total of 766 million barrels. Kenya is in the process of finalizing the review of its upstream oil and gas legislation, Petroleum bill 2017. Although this was one of the bills that had a constitutional deadline to be passed by parliament by 27th August 2016, the bill is yet to become law due to myriad of stakeholders involved. The review is aimed at, among other things, addressing the revenue sharing model as is a major source of conflict among the national government, county government and members of the community (Cropanzano& Mitchell, 2005). Other matters being addressed by the bill include; environmental management, public participation as well as permitting and administration of this budding sector in Kenyan economy (Conlon, & Deutsch, 2016). A viable legislative framework must consider the various factors that shape the effectiveness of participation and the elements that promote the objectives of participation. With regards to the idea of comparative public policy Saudi Arabia and Iraq, it is premised on the grounds that looking to international prescriptions might help to elucidate gaps in domestic laws, as well as alternatives to overcome them (Colquitt,2011).

Mackenzie (2016) report on Kenya's upstream oil and gas report, underscore the significance of the oil and gas discoveries in Kenya's economy. The upstream industry in Kenya is regulated by the Ministry of Energy and is governed by the Petroleum (Exploration and Production) Act of 1986. The Ministry is the representative of the National government. Other interested stakeholders include but not limited to: the county governments, the communities, Foreign and local Investors, media and many others. To ensure the wealth from oil and gas industry in Kenya translate into economic prosperity there is need to properly engage the multiple stakeholders in this sector. Meaningful stakeholder engagement is critical to avoiding some of the potential adverse impacts of extractive operations as well as optimizing potential value. Engaging with stakeholders also makes good business sense in that it can contribute to: attaining and protecting a 'social license to operate' facilitating current and potential future operations and expansions, avoiding reputational risks and costs through identifying emerging community issues at an early stage and dealing with them proactively rather than reactively, reducing time in obtaining approvals and negotiating agreements, avoiding the costs of conflict arising from lost productivity due to temporary shutdowns and senior staff time being diverted to manage grievances, improving corporate risk profile and, potentially, the ability to secure access to capital on more favorable terms and attracting and retaining employees, particularly in the context of recurring skills shortages(Mackenzie 2016).

Constitution of Kenya 2010 has thrown the country into uncertainty over a plethora of laws that it requires to be enacted by the parliament over periods of time that have been specified. With the discovery in the oil and gas sector, laws should be in place to clearly spell out the governance of the resources. Some of these laws are not yet drafted. Moreover, the existing legal and regulatory framework has not been aligned to the Constitution. The public is pregnant with expectations of poverty alleviation owing to the potential for increased government revenue from commercial discoveries. The laws must address the concerns over the Kenyans affected by the discoveries for instance those living in places where the discoveries are made. Our laws should address how they can directly benefit from local ownership of the assets. It is notable that Kenya's mining sector has operated without a clearly defined policy framework.

It is therefore a welcomed move that a draft policy is now in place to govern the sector. Nevertheless, it still points certain unfulfilled obligations which are yet to be met. The confidence of the investors has been recently shaken by Kenya's move of arbitrarily altering the law for instance by introducing a 35% local requirement for mining licenses. This will adversely affect the exploration for minerals in the country. Moreover, the informal introduction of taxation prior to ministerial consent to an assignment of a PSC will also adversely affect the sector.

1.2 Statement of the research problem

According to Ernest & Young (2014) nearly three quarters of major natural resource projects in Africa are simply not getting off the ground, not because of project finances but because of inertia related to managing diverse interest of various stakeholders. The report indicates that, Africa has seen great economic growth over recent years and is expected to continue growing at an average rate of 6% annually, between 2013 and 2023. Whilst this growth will be impeded by lack of adequate infrastructure, the biggest challenge remains on execution with respect to dealing with stakeholders. The Constitution of Kenya 2010 obligates the State and all State organs to ensure adequate public consultation on all public policies, legislation or any decision that is likely to impact on the people of Kenya. Failure to factor in the mandatory requirement of public participation exposes the legislative instrument or policy framework to constitutional challenges of legitimacy, hence making it actionable for unconstitutionality in a court of law. However, neither the constitution nor the government, both at national and county level, has developed a clear Stakeholder engagement framework that will ensure effective public participation.

1.3 General objective

The overarching objective of the study was to examine the challenges and solutions of engaging external stakeholders in extractives industry for upstream oil and gas sector in Kenya.

1.3.1 Specific objectives

i. To establish major stakeholders in upstream oil and gas sector in Kenya.
ii. To assess the interests of external stakeholders in upstream oil and gas sector in Kenya
iii. To evaluate the effectiveness of external stakeholder engagement in upstream oil and gas in Kenya.

1.4 Research Questions

i. Who are the major players in the upstream oil and gas sector in Kenya?
ii. What are the main interests of external stakeholders in upstream oil and gas in Kenya?
iii. Are the current methods of external stakeholder engagements in upstream oil and gas in Kenya effective?

1.5 Scope of the study

The research focus in this study was external stakeholder engagement in the context of upstream oil and gas sector in Kenya. The study was positioned in the field of strategic Stakeholder engagement, with a specific focus on external stakeholder engagements in upstream oil and gas sector in Kenya. In this study, external stakeholders are considered as groups that are not formal members of the project coalition, but that may affect or be affected by the project. Such groups are often referred to as non-business stakeholders or secondary stakeholders (Cova & Salle, 2015). Whilst the focus of the study was primarily on external stakeholders in upstream oil and gas sector in Kenya such as ministries and agencies within

Government of Kenya, international development partners like the World Bank, non-governmental organizations as well as private sector organizations; contributions to the research by Tullow Oil as well as local communities are excluded from the scope of this study. The study was focus on the stakeholders at the national level based in Nairobi which will primarily target; Ministry of Energy & Petroleum, Non-Governmental Organizations, members of Kenya Oil & Gas Association (KOGA) as well as Industry professionals. Nairobi has been chosen because most of the organizations are headquartered in the city and hence convenient to reach out to major external stakeholders in upstream oil and gas sector in Kenya.

1.6 Significance of the Study

The importance of this study cannot be over-emphasized, given the current government's efforts to provide clean and safe water to all households in the country. This study aimed to contribute to the body of knowledge on stakeholder holder engagements in mega projects in Kenya albeit covering a narrow but important area of external stakeholder engagement in upstream oil and gas sector in Kenya.

The government (both national and county level) and other stakeholders in the upstream gas and oil industry as well as the construction industry stand to benefit a great deal from the study. For years, efforts have been put in formulating policies and procedures aimed at ensuring that foreign investors carry out activities that are beneficial to the local community to improve their livelihoods and wellbeing. However, this has not been the case and various studies continue to be carried out on the impact of foreign extraction of local resources. This has led to many natural resources and minerals remaining un-extracted as the government looks for ways to reduce conflicts between foreign investors and local communities who seek a greater piece of the cake in the whole exploration and extraction process. Oil and gas products extracted will enable the Kenyan government to foster its export trade hence improving the economy's

The public also stands to benefit by the creation of job opportunities within the oil and gas industry fir the locals, hence a source of employment. Social amenities constructed will also improve the living standards of local residents, who will have better healthcare services as well as well-equipped schools for their children. Private developers, planners and designers will benefit from the study by getting new methods of doing construction planning and implementation process which will guarantee profitability, the key purpose why entrepreneurs invest in any venture. The study will also help researchers in filling the literature gap by establishing ways of engaging external investors in many developing countries that are well endowed with oil and gas resources as well as other natural mineral resources.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will examine the theories of stakeholder engagement and looks at the past studies on External Stakeholder Engagement challenges. The chapter also presents literature and previous studies that have been conducted on the challenges faced in engaging stakeholders in the extractives sector in Kenya.

2.2 Theoretical Framework

This section discusses theories on impact of stakeholder engagement. The study was based on the stakeholder theory proposed by Freeman (1984).

2.2.1 Stakeholder Theory

Freeman, (1983) argues that the only way to create value for shareholders of the business is to pay attention to all stakeholders. Currently there is a process of giving more and more pressing power to social groups who can have a certain claim on the firm (1983). Externalities, moral hazards and monopoly power abuse have been significant economic factors in those changes and encouraged society to take more control over private sector. According to Zollinger (2009), engaging stakeholders in management and governance of an organization is the core of how power and authority and understood and disseminated in the organization. A common definition of by definition, stakeholders have a stake in the company, and have the possibility of gaining benefits or experiencing losses or harm because of the operations of a company.

Modern stakeholder theory is an expansion of Freeman's seminal work Strategic Management: A Stakeholder Approach (Freeman 1984). Before this, theorists were struggling to establish the duties and responsibilities that an organization has towards other groups and individuals besides shareholders, suppliers, customers and employees (Shankman,1999). Stakeholders can be defined as any group or individual who can affect or are affected by the achievement of the organization’s objectives (Freeman 1984). According to this definition stakeholder have the potential to both benefit and harm organizations (Gibson 2000). Therefore, stakeholders‟ concerns should be recognized and addressed by organizations to ensure their survival and successful goal accomplishment.

To recognize and address stakeholder’s needs and expectations Clarkson (1995) categorizes stakeholders into primary and secondary stakeholders. The primary stakeholders are those individuals and groups whose support is essential for the survival of an organization, whereas secondary stakeholders are those individuals and groups who affect or are affected by the activities of an organization. Based on the above categorization, organizations can have a wide range of current and potential stakeholders such as: fund providers, employees, suppliers, investors, shareholders, regulatory authorities, Non-Government Organizations, media, labour unions, society and local community.

Organizations can have a broad range of stakeholders with different interests and it is not possible for organizations to address the issues and concerns of all their stakeholders. Therefore, identification of stakeholders which can impact or are impacted by an organization’s actions becomes essential. In the absence of stakeholder identification, the effectiveness of stakeholder engagement becomes questionable or doubtful (Belal, 2002). The key criteria for identifying and prioritizing stakeholders include: attributes of power, legitimacy and urgency; and the stakeholders‟ ability to affect or be affected by the organization’s actions (Mitchell, Agle& Wood 1997).

According to Andriof &Waddock (2002), stakeholder engagement can be defined as a trust-based collaboration between individuals and/or social institutions with different objectives that can only be achieved together. Advancing sustainable development is one such goal that needs the trust-based collaborative effort of both the organizations and their stakeholders to ensure its success. Moreover, while pursuing sustainable development objectives, organizations realize that they cannot act alone to develop a sustainability report (Isenmann & Kim, 2006), as organizations require the cooperation of their stakeholders to identify social and environmental issues perceived by stakeholders.

Study of stakeholder engagement theory identified different levels of engagement (Katsoulakos & Katsoulakos, 2006). 'Informative approaches' to stakeholder engagement include identifying and mapping the roles of key stakeholders to inform about the project. The next level is the 'instrumental approach' which is about understanding local concerns to foster social acceptance. This involves increasing transparency, tailor make information to different stakeholder groups and integration of roles and interests of stakeholders into the project and process. Success arises from the next level of stakeholder engagement, the 'democratic approach'; true participation involves feedback loops from the interaction in the process. The first feedback loop is the integration of stakeholders' concerns, priorities, satisfaction, and suggestions into the process. This could involve consulting experts and instigating extra research to the impacts of project activities. The second is improving communication and transparency because of interaction. The third and final feedback loop is the willingness to make adaptations to the project implementation, in other words, the design.

In the context of local energy projects, the stakeholder theory enables the study to establish a team of experts in the process, who are key stakeholders in the industry. The theory is also an anchor in carrying out an in-depth analysis of expectations and perspectives and aligning these expectations with both internal and external stakeholders. Finally, the theory enlightens the study on effective stakeholder engagement (Ashworth et al., 2011).

2.4 Empirical literature

The concept of stakeholder engagement is based on the belief that when stakeholders are meaningfully engaged in an activity, such as, the strategic planning process, the benefits for the organization and the stakeholders tend to be greater than if they had not been engaged. Hitt et al (1999) & Balogun et al (1999) observe that organizations do not exist in a void. Internal or external stakeholders may have a share in an organization, and they will make self-interested demands on it. The power and influence of the stakeholders may determine the strategic planning process of an organization. A critical area of focus for organizations is the inclusion of stakeholder considerations (Freeman, 1984) either through direct engagement of stakeholder groups in the strategy formation process or considering critical stakeholder needs in the strategic conversations within strategic planning sessions. Strategic planning sessions and ensuing contact with key staff are designed to surface up the key strategic issues facing the firm now and into the future and to develop an effective strategy formation process.

Adesse Consulting Group (2008) proposes seven steps of managing stakeholders. They include: stakeholder identification; categorizing stakeholders by their influences and interests; considering whether the stakeholder is positive or negative; define engagement or communication scope with each stakeholder; develop plan for managing each stakeholder; including measures of success; deliver plan; review success and refine plan. In identification of stakeholders, Dagmar (2001) proposes the stakeholders need to be visualized as a set of concentric circles; with the most inner circle including the stakeholders with the most significant influence while the external stakeholders are the stakeholders with the least significant influence. The impact or power of a stakeholder is defined as the extent to which they can persuade, induce, or coerce others into following certain courses of actions. It is important to categorize stakeholders because they vary enormously depending not only their role, but in how they can influence the process of change (Adesse Consulting Group, 2008). Unless we can discern the differences, we can end up needlessly deploying organizational resource in managing them, or ignore crucial influence that could potentially prevent the organization success. We therefore need a means by which we can categorize stakeholders.

Having categorized your stakeholders, you must consider each one individually to determine the level of engagement or communication which will give you a prioritized list in terms of the degree of effort and the type of communication or engagement you will need to use. Let's take for example, a key group of managers or organization owners who are positive and have high levels of interest and influence, you may decide to: Invite a sample of them to bi-annual conference to know the strategic practices of the organization; Involve them in every step of executing the strategic practice and give the regular feedbacks and always let them know what they need to do for the process to succeed.

Government officials, corporate and politicians tend to have an ambivalent attitude towards participatory approaches. On the one hand, there is growing awareness of the benefits of community participation in terms of narrowing the gap between the government, corporate, and politician stakeholders and citizens, and ensuring that decisions and policies are appreciated and supported by the community. On the other hand, there are still fears concerning elements conceived as being unknown and uncontrollable: some politicians for example are afraid that stakeholder (particularly public) engagement may lead to unworkable proposals and a situation in which politicians are unable to make any decisions on their own without engaging stakeholders (Dagmar, 2001). The community forms part of the secondary stakeholders who although do not engage in direct economic exchange with the business, are affected by or can affect the actions taken. Communities sometimes are affected by the decisions made by the companies or the government. It is therefore good to involve them so that they feel part of the project; otherwise there will always be resistance (Njenga, 2014).

2.4.1 Major stakeholders in oil and gas industry in Kenya

The petroleum exploration in Kenya begun in the 1950's with the first exploratory well was drilled in 1960 and by 1992 a total of thirty (30) unsuccessful wells had been drilled. The exploration was being carried out by British Petroleum (BP) and Shell along the Lamu embayment where they drilled ten wells (Berman, et. al., 2016). None of the wells were fully evaluated or completed for production despite several indications of oil staining and untested zones with gas shows. Several other explorations were done in the Mandera basin and Anza basin, while others did not materialize to drilling; others were drilled, showing indications of oil but dry. The Tullow Oil exploration in Turkana led to the discovery of 600 million barrels of oil in 2014 (Bentham, 2010; Berle & Means, 2015).

Over the last several years, oil exploration companies have intensified their exploration for oil and gas in the northern and coastal regions of Kenya which are believed to have oil and gas deposits. As a result, in the period following discovery of oil in Uganda, Kenya experienced her highest levels of investment in oil exploration especially in its North-Eastern frontier (Taylor, 2011) This saw thirteen companies divide the country's north and east, particularly Turkana District, Lamu District and parts of the North-Eastern Province and intensify the drilling exploratory wells (Sambu ,2011). These areas are the Turkana Basin in Turkana County and Lamu Basin in Lamu County. These companies include Dominion Petroleum, BG Group PLC and Tallow Oil PLC, all from the United Kingdom. Others are Total SA of France, Simba Energy of British Columbia, Anadarko of America and China National Offshore Oil Company (CNOOC).

According to Old Mutual research equities (2013) oil in Kenya was discovered by the United Kingdom-based Tullow Oil exploration company, it made two notable oil discoveries out of the 54 wells in the country (Ngamia-1 and Twiga South-1 wells). The country is in the process of evaluating the commercial viability of these findings. So far, Tullow has sunk over 40 wells in Kenya and plans transition to development of the resource. In September 2012, Australian firm Pan Continental discovered 52 meters of natural gas deposits at the Mbawa-1 well located in Block L8 (offshore) which it operates jointly with Tullow Kenya BV, Apache Corporation and Origin Energy. Other multinational firms in the market are Total, Anadarko, Swala and Cove Energy. Total recently signed a contract with the government to start exploring oil in Block L22 (offshore) in Lamu County, an area of 10,000 square kilometers (appendix V).

The upstream industry in Kenya is regulated by the Ministry of Energy and is governed by the Petroleum (Exploration and Production) Act of 1986. The National Oil Corporation of Kenya (NOCK) has the right to participate in developments on the government's behalf. Kenya issues exploration licenses on an ad hoc basis (Makenzie report, 2016). Kenya offers attractive terms that are favorable compared with regional peers, but modest regulatory and fiscal changes that toughen the terms are anticipated following the approval of the new Petroleum Bill (2014).

2.4.2 Key Interests of Major External Stakeholders in Gas and Oil Industry in Kenya

The oil and gas (O&G) industry in Kenya is highly capital and technology intensive and involves billions of dollars of investment (UNDP, 2015). This makes international oil companies (IOCs), with their financing and infrastructure capabilities, critical to developing a country's oil and gas resources and therefore important partners for Government in bringing about the resulting socio-economic development and transformation (Adams, 2015).

World Bank (2013) shows that only 21% of the intended projects have been effectively and efficiently implemented, 45% are on the struggling end while the remaining have been abandoned or failed. Noted as major derailing factors in these projects implementation in the county are factors like political polarization between the county governor and the national government, nepotism and tribalism in county boards employment, poor roads, electricity and railway linkage (infrastructure), low level of technology, cultural beliefs, corruption, gender discriminations, bad local rules/laws, insecurity because of youths' polarization at Masjid Mussa, low levels of education and many more. This has hindered effective implementation of development projects in the county for over a long time now. Due to these issues in devolution, the study finds its ground of argument.

The extractives sector has undergone major expansion over the past decade. On the back of growing demand from emerging economies and a boom in commodity prices, oil, gas and mining industries have expanded dramatically (Agle, Mitchell &Sonnenfeld, 2016). China whose economy has been growing drastically has total primary energy consumption reached 4.26 billion tons of coal equivalent (TC), up 2.1% over 2016, and accounting for 23 percent of global energy consumption. In contrast, China's oil consumption was 12 percent of world demand and natural gas was 5.5 percent. Growth in coal and steel production between 2000 and 2010 is equivalent to the total of all the growth that occurred between 1960 and 2000. In the same period, aluminum and zinc production increased by as much as it had in the preceding 25 years. Not all commodities grew at the same rate: global oil and copper production did not undergo the same acceleration (Akerlof, 2012).

2.4.3 Implementation of projects outside the Oil and Gas Industry in Kenya by external stakeholders

According to the GOK report (2014) the country has made significant improvement in infrastructural projects, education, mining projects, water projects, SMEs projects and general industrialization since the new constitution was promulgated. Under Vision 2030 economic pillar together with the Ministry of Roads Service Charter (2008), improvement of roads transport was identified as the most important enabler to the economy as it carries about 80% of all cargoes and passengers in the country. Due to the importance of roads in socio-economic development of the country, the government has in the recent past steadily increased budget allocation to the road sub-sector. However, these road projects have been facing various challenges due to lack of funding. This however was given a boost since the oil discovery in the northern Kenya in 2012. Major of foreign companies undertaking exploration and extraction activities have involved themselves in improving infrastructure in the area as well as construction of roads to improve accessibility of remote areas ease movement of goods. According to Africa Development Bank Environment and Social Impact Assessment report (Africa Development Bank, 2013), these projects have greatly improved the livelihoods of the locals in the northern Kenya where oil explorations are ongoing.

In relation to the construction of projects by oil and gas companies in Kenya, Kagiri & Wainaina (2013) carried out a study on building and construction projects in the Nairobi and the Rift Valley noted that about 40% of construction projects like building of county offices, hospitals, classes, roads and waste disposal plants were funded or initiated by foreign companies with interests in the country. In the Rift Valley for instance, 21% of road construction and maintenance in 2013-2016 was initiated by or funded by oil exploring companies including Tullow Oil Company.

World Bank (2016) carried a research on the state of County government projects initiated by county governments under the funds from the development partners in Turkana, West Pokot, Lamu, and Kwale Counties. The study found that only 31% of these development projects had available resources efficiently used and effectively completed within their stipulated time. Projects like re-carpeting of the existing roads, building of new classes in schools, erecting new hospital wards in the established hospitals, acquisition of new ambulances, agricultural tractors and water pumps accounted for 78.25% of all projects initiated by external oil and gas stakeholders in these counties. The Government of Kenya (2013) reports that 49.21% of the such planned county development projects could not be achieved due to mismanagement and misappropriation of funds by local leadership.

The Office of Accountability (OA) of the U.S. Overseas Private Investment Corporation and the Compliance Review and Mediation Unit (CRMU), May 2014 report on successful community engagement around energy and infrastructure projects in Africa, highlights different sources of conflicts in external stakeholder engagements in exploration activities within Africa. These conflicts can emerge from small energy projects as well as large ones, although the nature of the conflict may be quite different. Some of these conflicts includes: conflicts arising if locally-affected communities have not granted a social license for the project even after a host country government issuing legally required licenses and permits; Inter-tribal tensions can be a major issue, especially in areas where several tribes co-exist; Pre-existing tensions and distrust in the project-affected area, by themselves, may be enough to generate a high risk of conflict without even considering project characteristics. When such conditions are present, it becomes more important for developers to demonstrate that there will be benefits to the community, and that the company is committed to not repeating past mistakes. Addressing above the ground, non-technical risks associated with different stakeholders has been the main challenge affecting the implementation of several National government projects in Kenya. These challenges reflect a clear need for an establishing a policy guideline for Stakeholder engagement which will be a point of call in the process of implementing the national government projects.

According to Sustainable Energy for all 2016 report, Kenya Electricity Transmission Company (KETRACO) is among many energy projects that have in the recent past stalled due to social conflicts around the issue of claims for higher compensation for the way leave land and political interference. Furthermore, the Kenyan constitution emphasizes the need for public participation in the decisions touching on the use of land and other resources within their localities. Poverty remains a prevalent social problem characterized by low levels of income and inadequate access to basic services.

The construction of the Kenya Crude Oil Pipeline is likely to be hampered by demands for employment by affected communities, demand for high compensation the way leave land by the affected communities, security concerns and political interference from leaders seeking political support from communities and environmental related issues as the experience of Tullow Oil and other explorers in the Rift Valley illustrates. Tullow was forced to temporarily abandon operations in November 2013 after locals protested against workers from outside Turkana community. The number of locals hired has skyrocketed since the shutdown, often in ambiguous roles such as ‘road marshals’. Additionally, the Lamu Port South Sudan Ethiopia Transport Corridor (LAPSSET) project has also faced several contentious issues following numerous fraudulent land transactions in the region affected by the project mainly for speculative purpose. The planned infrastructure is expected to have irreversible environmental, social, and demographic impacts on a politically sensitive area, up to this point in time, state-decision makers have preceded without consultation with the Lamu and Isiolo communities as the key stakeholders or an environmental impact assessment. The local communities of Lamu have threatened to take legal action against the project because of the failure of the government to address historical land injustices prior to its implementation (Edari, 2017).

2.5 Research gap.

Most Studies have demonstrated a strong focus on the development of stakeholder engagement tools and the illustration of their use in the selected case projects. For instance, Newcomb (2003) analyzed a major construction project in UK to demonstrate the importance of stakeholder analysis and utilized stakeholder mapping tools, such as power/interest matrix in this process. Olander & Landin (2005) also applied the power interest matrix to study how the problem of managing stakeholders presents itself in two construction case projects, while Walker et al. (2008) presented the use of two developed stakeholder visualization tools. Olander (2007) carried out a study on three construction projects develops a tool for stakeholder analysis from stakeholder perspective and is one of the few empirical studies that adopt a project stakeholder perspective. None of this research focused on external stakeholder's engagement on the extractive industries, existing policy tools in upstream oil and gas sector in Kenya.

To date, most studies on stakeholder engagement is mainly skewed to development of stakeholder engagement tools and their use in selected case projects in advanced economies with very little having been done in less developed or developing economies. However, the fact that there are profound institutional differences between advanced and developing economies does not imply that the management approaches and challenges will be any different. Kenya being a developing economy, there was a need therefore to carry out this research in the Kenyan context. Little research has been conducted on how effective external stakeholder engagement can lead to successful upstream oil and gas sector in Kenya. The study therefore seeks to assess the current new approaches used for engaging external stakeholders in upstream oil and gas sector in the Kenya.

2.6 Conceptual Framework

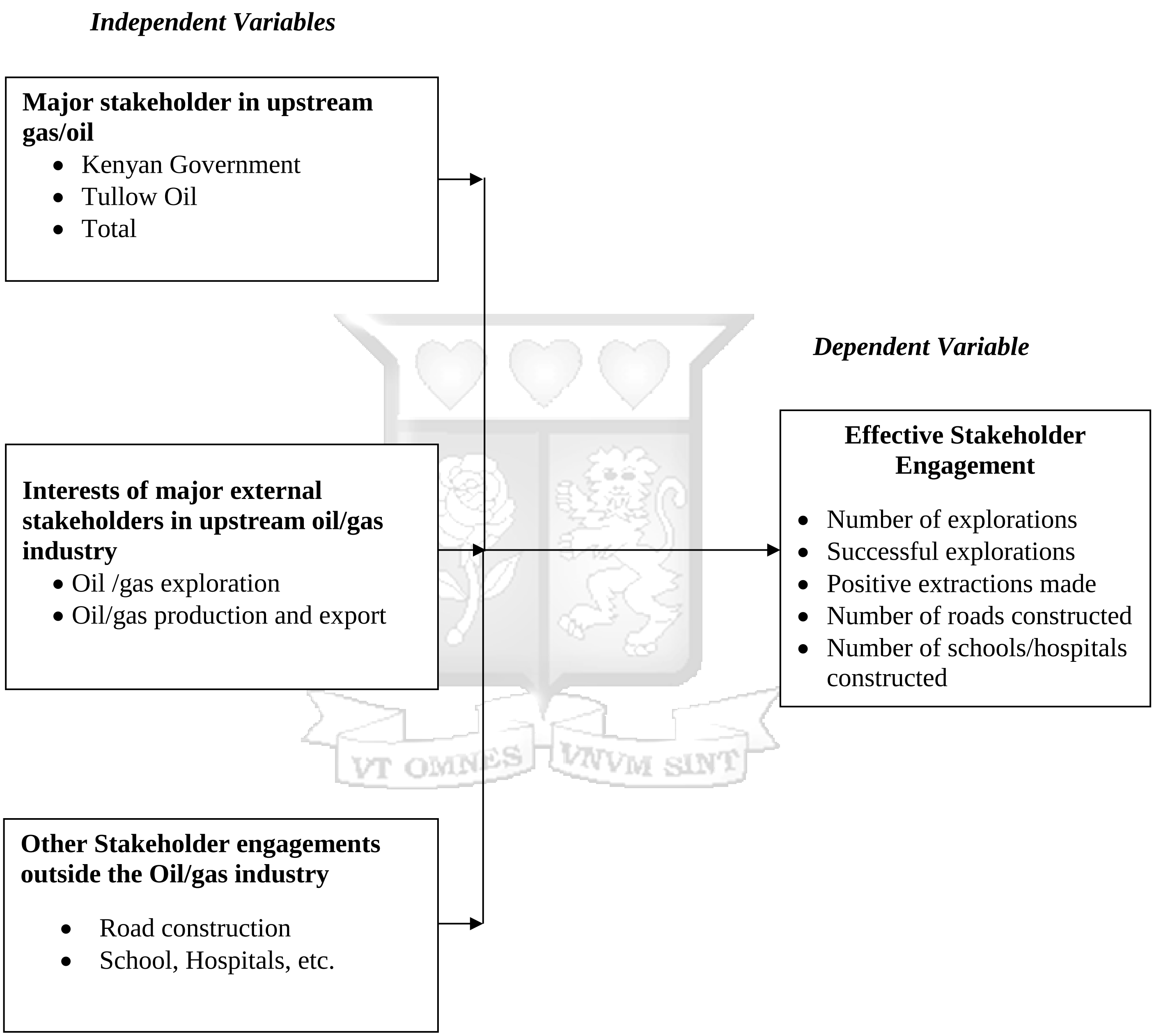

Figure 1: Conceptual Framework

According to the conceptual framework of the study, the independent variables are major stakeholders in the oil and gas industry in Kenya, key interests of major external stakeholders in the oil and gas industry in Kenya, as well as other engagements outside the oil and gas industry in Kenya. The dependent variable on the other hand is the effective stakeholder engagement proxied by number of explorations done, number of successful oil/gas discoveries made, the amount of oil/gas extracted so far, number of roads successfully constructed, as well as the number of social amenities i.e. schools and hospitals constructed so far.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research methodology adopted for this study to achieve the core objective which is to investigate and assess the current approaches used in engaging the external stakeholder in upstream oil and gas sector in Kenya as well as establish gaps in the current policy tools that can be used to enhance external stakeholder engagement in the upstream oil and gas sector in Kenya**.**

3.1 The Research Design

A research design is a proof logical model that enables the researcher to deduce presumptions that concerns fresh relations among the variables that are investigated (Nachmias & Nachmias, 1996). This is the program that guides an investigator in collecting, analyzing and interpreting observations.

The study employed the use of exploratory research design. According to Saunders, Lewis & Thornhill (2003), studies that establish assess the magnitude and frequency of concepts, as well as exploring the meaning and understanding of the concepts are termed as exploratory studies. This is because the emphasis is normally on analyzing the magnitude of the problem to explain the concepts involved (Saunders et. al, 2003). As Hair, Babin, Money & Samouel, (2003) observed, explanatory studies are designed to test whether there is any relationship between two mutually exclusive events. This enabled the study to draw on the strengths of both quantitative and qualitative data collected, to formulate an overarching, interpretive framework for generating enhanced understanding and possible solutions to challenges and policy options in external stakeholder engagements in the oil and gas sector in Kenya.

3.2 Target Population and Sampling procedure

The unit of analysis for this study was the number of explorations as well as other projects carried out by external stakeholders in the oil and gas industry in Kenya. The target population included the management staff in all external stakeholders in the upstream oil and gas industry in Kenya, the Kenyan government, as well as the local energy sector in the country.

Patton (2002) argues that the logic and power of purposeful sampling lie in selecting information-rich cases for study. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the study. While Kenya is the primary target geographically, this study recognises that due to the undeveloped upstream oil and gas sector in Kenya, the minimum sample size (number of projects that meet the criteria) required for this study may not be met. The study therefore considered all attempted and successful explorations in the country, as well as the number of extractions made in the upstream oil and gas sector in Kenya. The study also included other projects i.e. building and constructional, carried out by external stakeholders in form of corporate social responsibility. The study further targeted two (2) individuals from every stakeholder organization who are knowledgeable and possess practical skills in the field of upstream oil and gas exploration/extraction, and two other individuals with project construction and infrastructural skills to interview as well as help verify findings and provide additional insights into the objectives of the study. The four from each organization were drawn from foreign oil exploration companies in the country, government agencies, private sector and a development agency currently supporting the infrastructural projects.

The respondents were selected using purposive sampling criteria. Based on these criteria for sampling, the study purposes to interview the target the respondents as shown in Table 1 below. Where secondary data collected is not sufficient to measure the variables, individuals who have worked on the sampled projects were interviewed as well. The choice of respondents was managed to ensure that there is representation from government, private sector and development (bilateral/multilateral) partners, the public/communities and all the relevant stakeholders.

Table 1: Target Population and Sample Size

For Secondary Data: **Source**	**No. of oil explorations carried to be selected**
Tullow Oil Company, and the National Oil Corporation (NOCK).	10

For respondents: Type of agency	**Name of agency**	**No. of proposed respondents**
Government	Ministry of Energy & Petroleum/PPP Unit (Kenya)/ Ministry of transport and infrastructure.	6
Independent Oil Companies (IOC)	TBA	4
Development Partners	World Bank, DFID or AfDB	4
Independent Professions	N/A	3
International NGOs		3

3.3 Data Collection Methods

The study used both primary and secondary data. Primary data will be collected by interviewing senior officials at government, private sector, development agency and international NGOs. The data was collected by use of structured open-ended questionnaires and interviews.

For collection of this data, a research checklist was utilised. The checklist was to compile data available in memos and reports. The study acknowledges that not all secondary data may be available, and for this reason, a questionnaire was designed for interviewing the stakeholders in different infrastructural projects.

3.4 Data Analysis

Quantitative data on various variables was entered into an excel spread sheet. Data cleaning was done and thereafter uploaded onto STATA research software for further analysis. This analysis was carried out in line with the objectives of the study, whereby the relationship between the dependent and independent variables was determined and an inference made. For qualitative data, a content analysis on available sources was done.

The data collected was both qualitative and quantitative. Therefore, the data was analyzed both qualitatively and quantitatively. Responses to the open-ended items in the questionnaires and interview responses were analyzed qualitatively. Qualitative data was analyzed according to major themes of the objectives of the study. These themes were guided by the objectives and research questions of the research study. The questions in the survey questionnaires was analyzed using simple descriptive analysis such as measures of central tendencies and dispersions, percentages and frequencies (Gay, 1992).

The quantitative analysis was carried out in an ordinal logistic model which will be used to investigate the significance of certain factors on the score given to the effectiveness of stakeholder engagement.

3.5 Research Instrument Quality – Reliability and Validity

3.5.1 Pilot Study

Pilot testing is an important step in testing to the reliability and validity of the research instruments. Thus, a pilot study based on the top and middle management of all the stakeholders was conducted. This enabled the researcher to ascertain the suitability of the questionnaire before administering it in the study.

3.5.2 Validity of Research Instruments

Validity is defined as the extent to which an instrument measures what it purports to measure. Kothari, (2006) posits that validity is the most crucial criterion and indicates the degree to which an instrument measures what it is supposed to measure. In other words, validity is the extent to which differences found with measuring instrument reflect true differences among those being tested. It requires that an instrument is reliable, but an instrument can be reliable without being valid. While we speak of the validity of a test or instrument, validity is not a property of the test itself. Instead, validity is the extent to which the interpretations of the results of a test are warranted, which depends on the test's intended use. Validity evidence is built over time, with validations occurring in a variety of populations. Comprehensive literature reviews on measurement approaches are therefore critical in guiding the selection of measures and measurement instruments.

The study tested for external validity by discussing the questionnaire with experts in the field of corporate governance in public offices. This is aimed at obtaining crucial expert comments that was used to modify the questionnaire and improve its validity. The validity test was conducted to ensure that the research instrument measures what it is supposed to measure. The study intended to test the validity of research instrument by seeking opinion and comments from professors and experts in public corporate governance practices. A pilot test of the questionnaire was done and reviewed with the help of the project supervisor on its relevance to the topic under study. To ensure content validity, the researcher specified the domain of indicators which are relevant to the topic under study and used expert opinion of the supervisor to determine if the content of the research instruments is adequate in addressing research questions. The study then used the pilot study findings to address any deficiencies in the research instrument.

3.5.3 Reliability of the Research Instrument

According to Mugenda & Mugenda (2003), reliability is a measure of the degree to which a research instrument yields consistent result on data after repeated trials. A reliable instrument is one that produces consistent results when used more than once to collect data from the sample randomly drawn from the same population (Mulusa, 1990). The process of developing and validating an instrument is in large part focused on reducing error in the measurement process. There are different means of estimating the reliability of any measure. Perhaps the most widely used method for estimating internal consistency reliability is the Cronbach Alpha. Cronbach Alpha is a function of the average inter-correlations of items and the number of items in the scale, and is used to measure how well a set of items (or variables) measures a single one-dimensional latent construct. All factors being constant, the greater the number of items in a summated scale, the higher the Cronbach Alpha, with major gains being in additional items up to approximately 10 when the increase in reliability for each additional item levels off. A standardized Cronbach's alpha is a function of the number of test items and the average inter-correlation among the items as shown in equation 3.1 below.

$$\boldsymbol{\alpha} = \frac{\boldsymbol{N}.\bar{\boldsymbol{r}}}{\mathbf{1}+(\boldsymbol{N}-\mathbf{1}).\bar{\boldsymbol{r}}} \quad \text{..} \quad (3.1)$$

Where

$\boldsymbol{N}$ = Number of items

$\bar{\boldsymbol{r}}$ = Average inter-item correlation among items

From the formula, when the number of items increases, the Cronbach's alpha increases. If the average inter-item correlation is low, the Cronbach alpha will be low. This is one reason why the use of a single item to measure a construct is not optimal. Having multiple items to measure a construct aids in the determination of the reliability of measurement and, in general, improves the reliability or precision of the measurement. If the average inter-item correlation increases, Cronbach's alpha increases as well. In cases of multi-dimensional data, Cronbach's alpha is generally low for all items. Technically, Cronbach's alpha is not a statistical test but a coefficient of reliability (or consistency). According to Nunnaly (1978), any Cronbach's Alpha coefficient above 0.7 is acceptable. The values of Cronbach alpha greater than 0.7 implies that the questionnaire is reliable otherwise it is unreliable. If the estimated value of Cronbach alpha is less than 0.7, the questionnaire will be reformulated and the pilot study will be conducted again until the questionnaire is found to be reliable with a Cronbach's alpha of >0.7.

The study will therefore use Cronbach Alpha to test for reliability of the questionnaire. Cronbach Alpha for each construct will be computed and results discussed.

3.6 Ethical Issues

The proposed respondents to the study were requested to participate in the study of their own volition and shall not be coerced to respond. Additionally, all participants did not have their responses attributed to them in the study to retain their confidentiality. The researcher was to obtain an introductory letter from Strathmore Business School outlining these assurances which will be presented to all potential respondents at the outset. Ethical clearance from the University Research Office shall also be obtained before the study commences.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The results were presented on effectiveness of external stakeholder engagements on the upstream oil and gas industry in Kenya. The study sought answers to the following specific research questions: Who are the major external stakeholders and what are their interests in upstream oil and gas sector in Kenya? Are the current methods of external stakeholder engagements in upstream oil and gas in Kenya effective? What are the gaps in the existing policy tools that inhibit effective external stakeholder engagements in upstream oil and gas sector in Kenya? The chapter covers the demographic information and focus on the variables and the findings were based on the objectives. The findings were then presented in tables, graphs and charts as appropriate with explanations being given in prose thereafter.

4.2 Response rate

The study targeted 20 respondents; however, 16 of them participated in the study contributing to a response rate of 80%. This response rate was sufficient and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate was due to extra efforts that were made via personal calls and visits to remind the respondents to fill-in and return the questionnaires.

4.2 Demographic data

4.2.1 Level of position

The study sought to know the level of the position of the respondents.

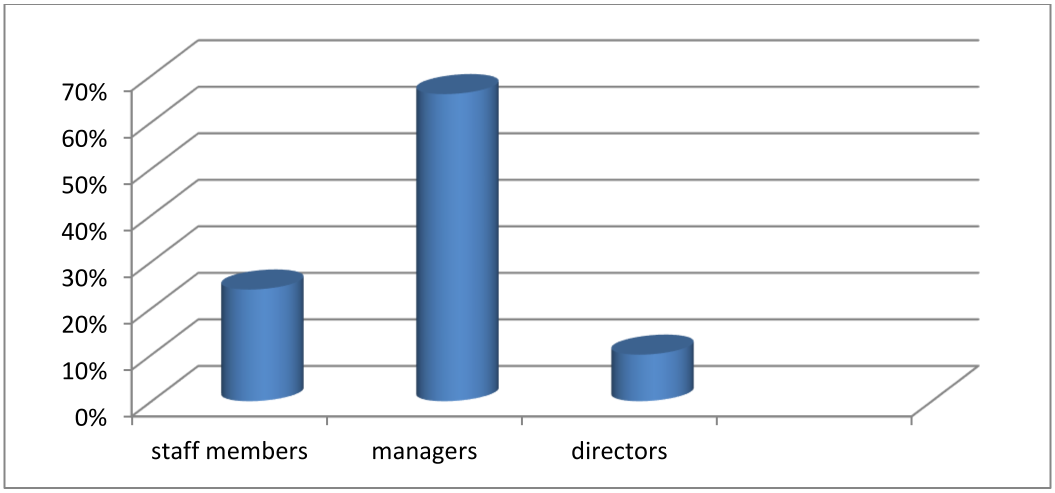

Figure 2: Level of Management positions

The findings established that most (66%) of the respondents were managers, 24% were staff members, and 12% were directors. This shows that majority of the respondents had a sound academic background to allow them to understand the challenges of stakeholder involvement in large infrastructure projects which are similar to upstream oil and gas industry. It further shows that the respondents were learned and could therefore give valid and reliable information based on their high level of position in the organization.

4.2.2 Length of work in the organization

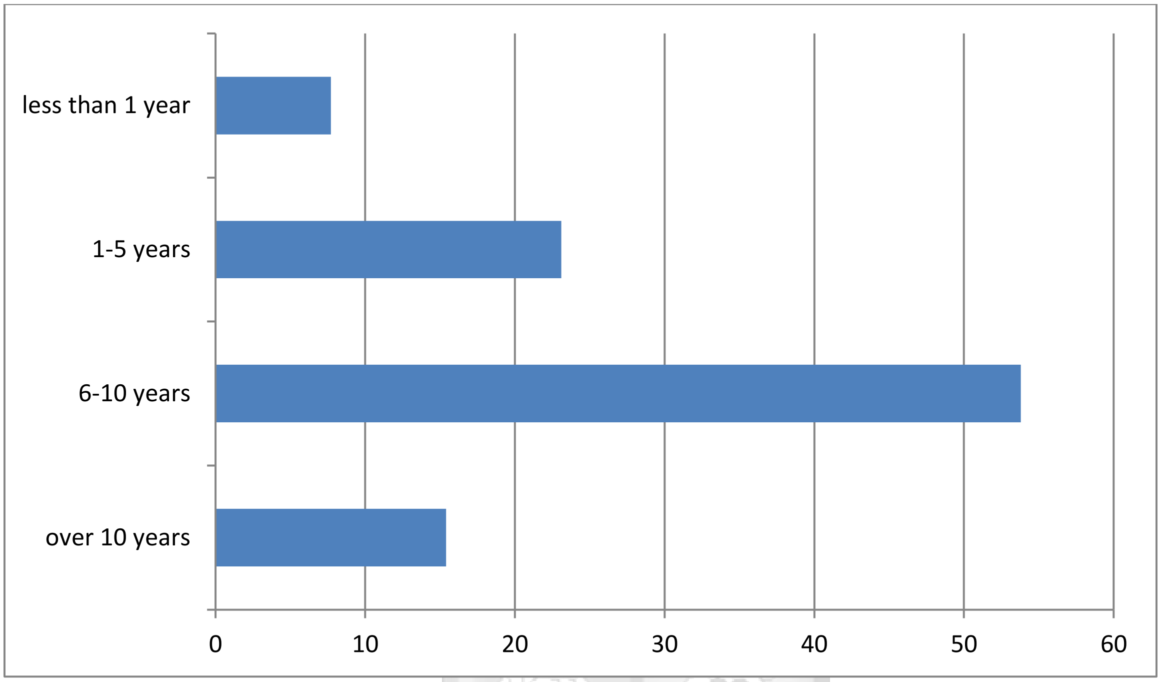

Figure 3: Length of work in the organization

The findings established that majority (53.8%) of the respondents had worked within their organization for 6-10 years, 23.1% for 1 -5 years, 1 5.4% for over 10 years while 7.7% of the respondents had worked within their organizations for less than one year. This depicts that majority of the respondents had worked in their organizations for a long time and were therefore well conversant with the external stakeholder's engagements in the extractive sector in Kenya.

4.3 Major external stakeholders, identification and their interests in upstream oil and gas sector

The analysis in this section focuses on the questions in the survey instrument that asked about who the respondents identified as stakeholders, the influence and interests of such stakeholders in the industry as well as how they are grouped into primary and secondary categories. As a result, a brief is presented on the question first before the analysis is carried out using the justifications given by the respondents for the choices of stakeholders, their influence and interests and categorization.

4.3.1 Stakeholders

The question asked here was *"who are the main external stakeholders in the upstream Oil & Gas industry in Kenya?"* with the respondents allowed to tick as many of the options provided as they deemed to be stakeholders in the industry. These options were oil companies, government, host communities, employees, shareholders, suppliers, NGOs, the environment and others.

Table 2: Stakeholders

Stakeholders	Responses
Government	94%
oil companies	89%
host communities	82%
Suppliers	28%
NGOs	24%
Environment	37%

The responses were varied as 94%, 89% and 82% of respondents chose government, oil companies and host communities as being stakeholders respectively showing that the people regard these as major stakeholders. On the other hand, suppliers and NGOs got 28% and 24% respectively being the least number of responses, even behind the environment with 37%. This implies that the people rank the government very high, while the environment is deemed as a stakeholder before any consideration is given to suppliers and NGOs. This is consistent with Stakeholder theory that different stakeholders are closer to the projects than others and the respondents could pick that up.

4.3.2 Stakeholder Influence & Interest

The question asked here was *“in your opinion, what is the level of influence or interest of the above stakeholders?”* with options provided for each attribute to be ticked against each stakeholder. This question was designed to discover about interests and influence, with the former defined as the impact of activities in the industry on the stakeholder and the latter as the stakeholder’s ability to make others do what it wants respectively. Every stakeholder mentioned above was highlighted as being affected by activities of the industry as well as having what it takes to influence others to get whatever they want to be done.

4.3.2.1 Level of influence

However, those identified above as being major stakeholders such as the government (78%), oil companies (51%) and host communities (46%) were regarded as being the most influential in the industry, while employees (19%) and suppliers (14%) had the least influence. Interestingly, even the environment (21%) is regarded as being more influential than employees despite the former’s supposed lack of ability to interact with other stakeholders directly (Mitchel, et al, 1997).

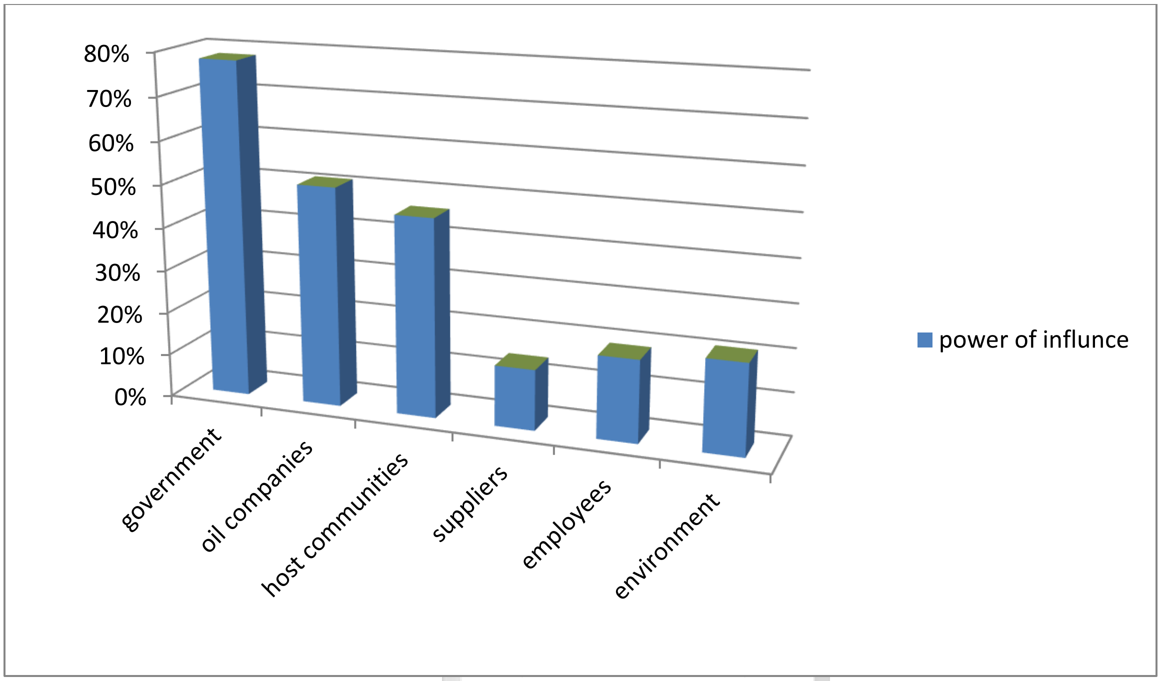

Figure 4: Level of influence

4.3.2.2 Level of interest

The stakeholders deemed to have more interests in the industry were the oil companies (55%), employees (46%) and the environment (43%) with the host communities (42%) and the government (28%) earlier identified as being major stakeholders falling in the ranking order. The implication of this is that the environment is regarded as being impacted more than the government and the host communities, even though it has previously been regarded as being non-interactive with other stakeholders.

From the interviews on this topic the data was collected and analyzed thematically on themes as below.

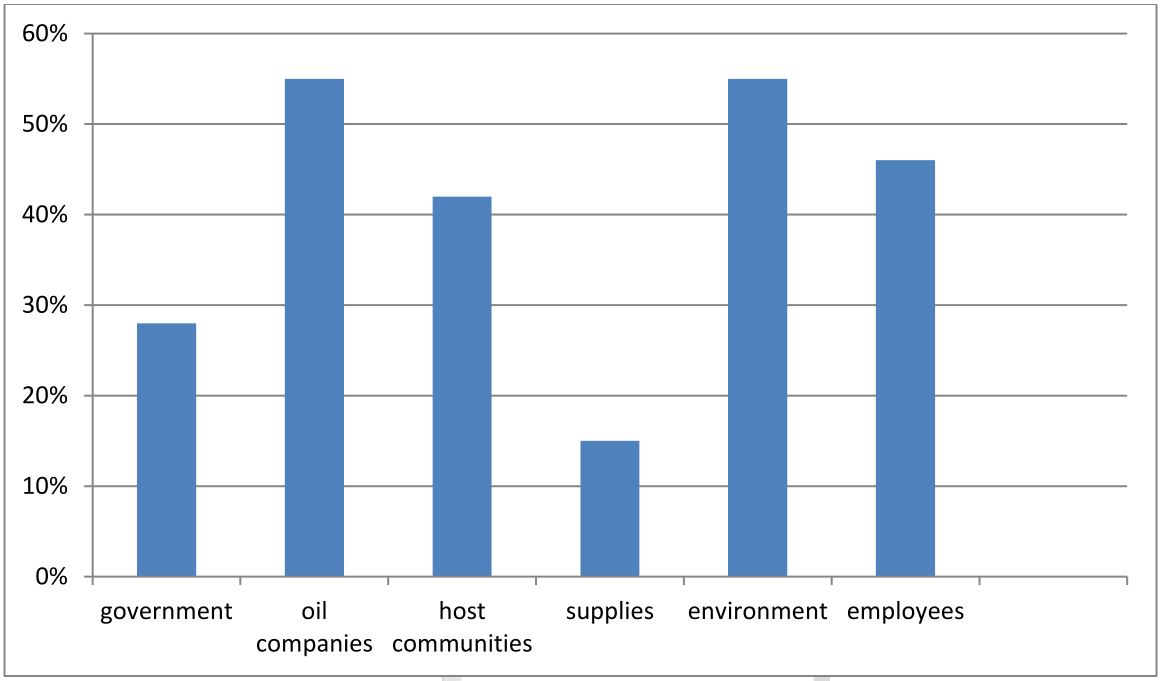

Figure 5: Level of interest

4.3.3.1 Interests

There is a discussion around this theme as being very important in the relationships between external stakeholders, with the different stakeholders pursuing their own interests even as they relate with each other. The different interests of the major external stakeholders are specified:

Views of the respondent on the theme question

*"**You know** when an oil company explores for oil; you know what happens it pays government tax and royalties. Government uses those tax and royalties to develop the communities; the oil company makes profit and gives to their shareholders. So, **everybody is benefitting**..."* (NGO Respondent 1).

This respondent identifies the different interests of the major stakeholders by referring to the benefits that they derive from partaking in the activities in the industry (*everybody is benefitting*). The use of this clause indicates that the interests of these stakeholders are being protected in the relationship, implying that none of the stakeholders have any cause to complain or agitate of being disadvantaged. Also, there is an attempt to force the above view on the listener by appealing to their understanding (*You know*).

Another respondent suggests that only the oil companies' interests are protected:

"They are the contact people to the communities but at times you see that they are ***not really protecting*** *the interest of the community,* ***they rather prefer to protect the interest of industry*** *than the communities, and of course you should not expect anything less than that."* (NGO respondent 2).

This respondent disagrees with the view that everyone benefits from the relationships by hinting that even the community representatives who work for these companies as employees; only work for the interests of the companies (*they rather prefer to protect the interest of industries*). However, there is a variation in the statement as the respondent indicates that these employees protect the people's interest but do so partially (*not really protecting*). So, in trying to make it clear that the host communities are not considered in the industry, the interviewee has given a hint that they are catered for but such protection of interests is secondary in comparison to those of the oil companies.

4.3.3.1 Influence

This theme explores the level of impact that stakeholders have on each other in terms of decision-making, which impacts their actions in these relationships.

Views of the respondent on theme question

"We do not influence rather, we ***proactively engage*** *our various stakeholders to be able to arrive at* ***mutually beneficial*** *and sustainable outcomes"* (Oil Company respondent 1).

"It ***depends on the issue****; however,* ***our core value is to respect people*** *and not* ***influence unduly*** *except there is a* ***superior case****"* (oil company respondent 2).

"Influence over our stakeholders is ***majorly on keeping to agreement*** *and operating policy. We keep strongly to this. In terms of how much of this influence,* ***one can say it is very strong****"* (Oil Company respondent 3).

The first company representative (Oil Company respondent 1) claims that rather than trying to influence their stakeholders, they prefer to interact with them (*proactively engage*) because that is the best way to get outcomes that are profitable to all parties (*mutually beneficial*). There is a variation here with the views earlier expressed by community representatives from the company's operating area claiming to lack access, meaning they could not have been involved without access. The second representative (oil company respondent 2) interviewee claims that the company deploys different methods in dealing with their stakeholders in different situations (*depends on the issue*), which shows their flexibility in dealing with stakeholder issues. They claim to treat the people with a high level of regard which would mean that their views and ideas are taken into consideration in decision-making (*our core value is to respect people*), but they can also apply force if that is the only way to achieve their goals (*unduly influence*). However, this is presented as not being an everyday case but one that is done in exceptional circumstances (*superior case*) which could be a confirmation of the view that the company uses force, even the deployment of the military to have its way.

The third representative (Oil Company respondent 3) relates their influence over stakeholders as being in the form of compliance with the terms of the agreements between them (*majorly on keeping to agreement*). This compliance with agreement is claimed to be at its best (*one can say it is very strong*) which tends to be a variation with the views of the community members from the company's operating area who mentioned the lack of respect for these agreements as an example of the communities' lack of influence.

The analysis above shows that there is divergence amongst members of the community on how influential they are with other stakeholders, especially the oil companies. Some claim that there is influence though it is not enough why others argue that there is none, attributing it to lack of access to other stakeholders thereby resulting in non-compliance with agreement terms. The types of influence possessed by the host communities are deemed to be either physical or intellectual, while the oil companies posit that they really do not influence the host communities, unless it is a peculiar case.

4.3.4 Internal and external Stakeholders categorization

The question asked here was *"please can you identify which of the above stakeholders can be considered primary or secondary in your opinion"* with the respondents given the option to tick only one box for each stakeholder. This restriction was aimed at controlling the choices of respondents, as a stakeholder could only be either deemed Internal or External and not both.

4.3.4.1 Internal stakeholders

The data shows oil companies (65%) and employees (48%) being confirmed as internal stakeholders in agreement with the earlier identification of stakeholders above. Also, the environment (45%) was deemed as being in this category showing once again the regard given to the environment amongst respondents.

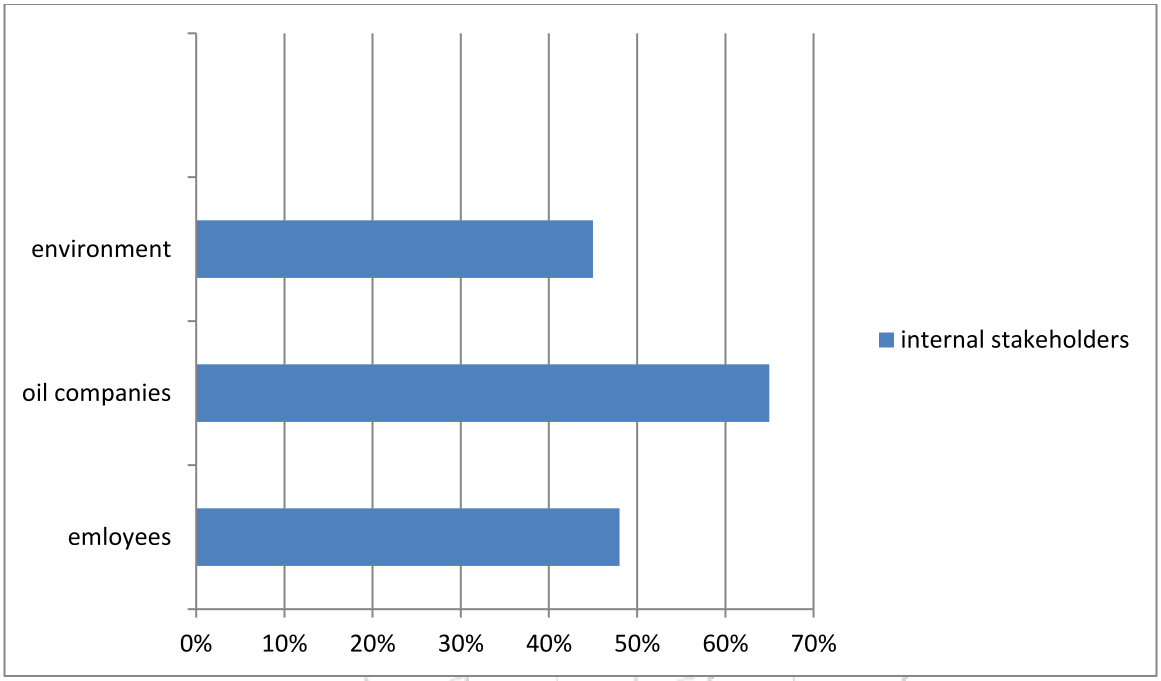

Figure 6: Internal stakeholders

4.3.4.2External stakeholders

The responses for the secondary stakeholders confirmed the categorization of external stakeholders as NGOs (42%) and suppliers (41%) and government 65%were ranked as being at the top of the secondary stakeholders ranking.

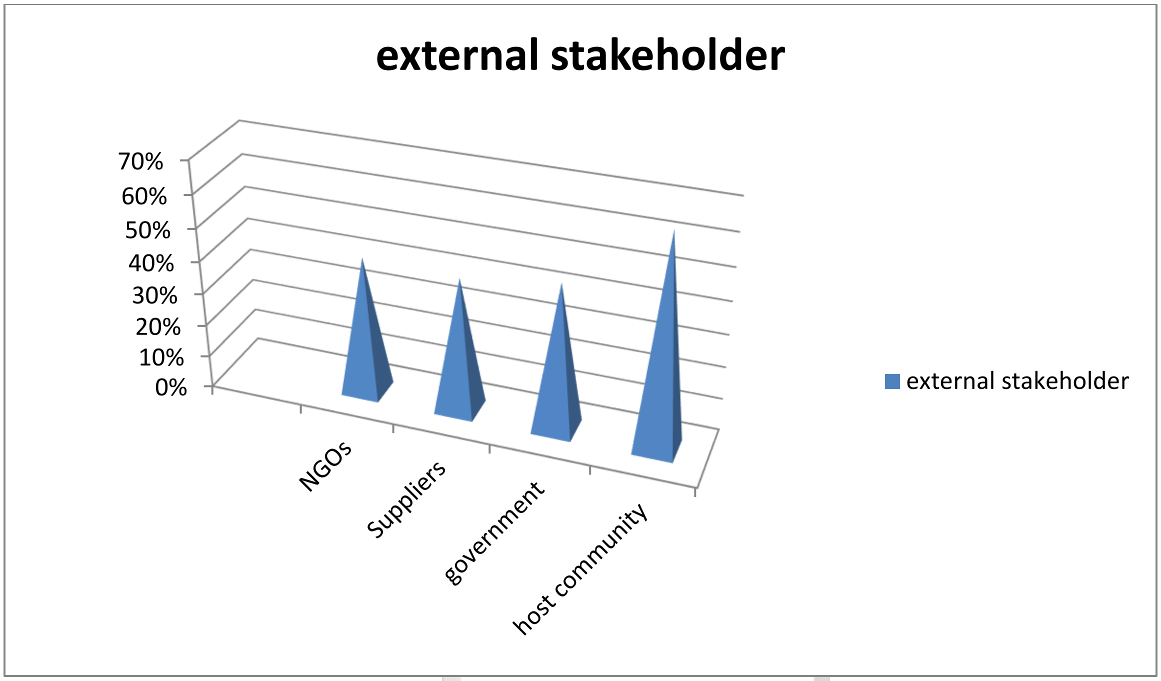

Figure 7: External stakeholders

An open-ended follow up question to the above was asked as *"please can you explain the reasons for your choices above",* aimed at getting respondents to give justifications for their categorizations. The different respondents had their reasons for categorizing the various stakeholders into primary and secondary stakeholders, which varied as much as there were answers but these have been clustered according to themes below.

One of the respondent regarded stake as being important in categorization:

"I consider internal stakeholders those who have ***direct stake or major concerns*** *in the operations of oil industry"* (R1).

The above quote moves away from the broad reason given earlier to a narrower one that emphasizes the possession of an interest in the industry (*direct stake or major concerns*) as being crucial in the categorization of stakeholders. The assertion here is that if a stakeholder has a stake that is not directly linked to the industry then it cannot be deemed as internal stakeholder, which is related to categorizations in the literature (Savage et al, 1991; Phillips, 2003; Fassin, 2009). The respondent makes it clear that the intention is not to present a global position or justification for the choices made in listing stakeholders, but rather to give a personal perspective to the discourse. In relation to influence and interests, although one external stakeholder group – NGOs- are influential, another – employees – have an interest; suppliers have neither, despite their role in providing raw materials to the industry.

Two of the respondents categorized in terms level of involvement:

"The reason for my choices above is that oil companies, host communities, shareholders, government and the environment are ***more actively involved*** *(internal) than others (secondary)"* (R2).

"Primary stakeholders are ***directly involved****, while secondary is* ***involved indirectly****"* (R3).

The two respondents quoted above introduce involvement into the discourse, though they do so in different ways, with the first respondent (R2) categorizing stakeholders based on their levels of involvement and activity in the industry (*more actively involved*). The use of this clause also indicates that some stakeholders can be passively involved, but it is only an involvement that is deemed to be active enough that grants a stakeholder the primary status. Surprisingly, the respondent does not deem suppliers, employees and NGOs to be actively involved enough to be accorded the status of primary stakeholders. The second respondent (R3) agrees that involvement is a determinant of what status a stakeholder is given but bases such on being either *directly* or *indirectly involved***.** This is reflective of the kind of relationship which the stakeholders have with the industry as proposed by Savage et al (1991), as well as like the attribute of legitimacy proposed by Mitchell et al (1997). This explains the respondent's choices of oil companies, host communities, government, employees and shareholders as internal stakeholders based on their direct involvement in the operations of the oil industry through various means.

Another respondent's view from a different

*Oil companies are primary stakeholders because **it's all about them**, Host communities are primary because it is **their land being occupied** and **perhaps being mutilated**, as well, the government **regulates and so on**. The environment is at stake while the NGOs and employees **have little or no say because of the kind of system of operation obtainable here**" (R4)*

The extracts above regard the roles played by the different stakeholders in the industry as being determinant of how they are categorized, though the first respondent (R4) also hints at contributions and impact suffered. The oil companies are deemed to be primary stakeholders because they run the industry (*it's all about them*), while the ownership of the land where the industry is sited makes host community's one (*their land being occupied*). There seems to be the claim that apart from regulations there are other things that the government does to make the industry work (*regulates and so on*). The respondent makes a claim about the devastation of the environment but seems not to be very certain and so would not like to be quoted on the issue (*perhaps being mutilated*). The placement of NGOs and employees into the secondary stakeholder category is based on their lack of decision making powers which is attributed to the nature of how the industry is run (*have little or no say because of the kind of system of operation obtainable here*). This clause also contextualizes the discourse as it implies that what is found in this industry might not be the same elsewhere in the world. However, this is somewhat in conflict with

Stakeholder theory where Freeman speaks of "Value creation" for stakeholders being the work of upstream oil and gas operators. All stakeholders are important and should be seen by all as such.

Another respondent views

*"**All activities take place in the environment**; primary stakeholders **have more legitimate powers** and **can influence the activities and programs of the firm**" (*R5).

The respondent (R5) agrees with the place of power but adds that it must be possessed alongside legitimacy to make the stakeholder important (*have more legitimate powers*), which agrees with the attributes hypothesized by Mitchell et al (1997). Also, there seems to be recognition of the role played by the environment by playing host to the industry, which could be being to make it internal stakeholder (*All activities take place in the environment*). However, that is not the case as it is further stated that to earn this status one must have what it takes to impact the firm (*can influence the activities and programs of the firm*). This puts the firm as the focal point (Freeman, 1984; Clarkson, 1994; Donaldson & Preston, 1995) meaning that if the stakeholder possesses legitimate power and influence over other stakeholders without any of such on the firm then it cannot be deemed as internal stakeholder. Although, this implies that the firm could never be deemed as internal stakeholder since it is the one that must be impacted for a stakeholder to attain the status, this is not the case as the oil companies are listed as primary stakeholders by the respondent. Furthermore, the environment which was earlier presented as being important is not listed as internal stakeholder and this could be attributed to a lack of influence, while suppliers and NGOs are being influential and having interests yet they do not qualify as primary stakeholders.

From the exclusive interviews with oil companies, NGOs and government, findings also established that oil and gas industry in Kenya had stakeholders, the respondent unanimously agreed that Internal Stakeholders included: Board members, staff members, volunteers, donors, owners. Similarly, they agreed that the external stakeholders of the company included: community partners, government of Kenya, suppliers, shareholders, creditors and customers. When asked about the role of different groups of stakeholders in the organization, majority of the respondents noted that both external and external stakeholders had different functions. From the findings, it was revealed that internal stakeholders were people who worked directly within the business, such as employees, owners, and investors. According to the findings, three of the respondents argued that internal stakeholders accounted for specific project planning activities that needed to participate in certain activities. The other two respondents pointed out that just like external stakeholders, internal stakeholders were consulted regarding other activities for which they had no direct responsibility. In view of the respondents these activities were for example planning activities in which internal stakeholders participated with differing levels of involvement. The findings revealed that the planning activities included project scope estimation; definition of work product, task attributes and project life cycle, creation of budget and project schedule, identification of project risks, planning for data management, project resources, personnel, stakeholder involvement and training; creation and review of project plan; reconciliation of work and resource requirements as well as gaining stakeholder commitment to the project plan. On the other hand, the findings revealed that majority of the respondents agreed that external stakeholders were groups outside oil and gas industries who were not directly working in the company but they were affected in some way from the decisions of the business for example customers, suppliers, creditors, community, trade unions, and the government. The findings of the study also pointed out that external stakeholders were highly involved in project planning activities just like the internal stakeholders.

Three (3) respondents explained that the roles of the external stakeholders were limited to that of the consultants rather than team members who were directly accountable for individual project activities. The other two (2) respondents pointed out that the stakeholders that are highly involved in extractive industries activities include representatives of special interests, such as employees, local communities or the environment, commonly invited to participate in stakeholder panels to review company performance and reporting practices for example co-implementers such as Non-Governmental Organizations, who have partnered with the gas companies to implement a joint solution or program to address a shared challenge.

The respondents were asked how the organization identifies its external stakeholders and the group and people involved in the process. Majority (5) of the respondents unanimously agreed that the company had a management committee that decides who should be involved in the strategic planning process. They agreed that the most important reason for identifying and understanding stakeholders was that it allowed the firm to recruitment them as part of the effort. Three (3) of the respondents were of the view of the fact that the organization used a participatory effort that involved representation of as many stakeholders as possible a strategy that could have resulted in many important advantages namely: putting more ideas on the table than would be the case if the development and implementation of the effort was to be confined to a to an organization or to a small group of like-minded people.

The respondents (5) agreed that multiple stakeholders were very resourceful especially when making key decisions in the organization. Majority of the respondents argued that with multiple stakeholders, the company could get support from all stakeholders by making them an integral part of its development, planning, implementation, and evaluation. Eventually, it will become their effort, and they'll do their best to make it work. Two (2) of the respondents explained that the importance of identifying stakeholders is because it strengthens the organization's position whenever the organization faces opposition. The other three (3) respondents argued that with many stakeholders there was a huge difference in terms of political and moral clout since it created a bridging social capital for the community.

The above findings are however consistent with the argument raised by Crane and Livesy (2008), who stated that "Social capital is the web of acquaintances, friendships, family ties, favors, obligations, and other social currency that can be used to cement relationships and strengthen community. Bridging social capital which creates connections among diverse groups that might not otherwise interact is perhaps the most valuable kind". The respondents noted that this however increased the credibility of the organization. Involving and attending to the concerns of all stakeholders establishes the organization as fair, ethical, and transparent, and makes it more likely that others will work with the organization in other circumstances (Neville, Bell and Whitwell, 2004).

The analysis above shows the diverse reasons given by respondents for their answers to the various questions highlighted above about stakeholders, their interests, influence and categorizations. The main themes that came out of these responses were importance, legitimacy, power, influence, dependence, involvement and stake either in the company or the industry. These themes agreed with the earlier works of authors (Savage, et al, 1991; Freeman, 1984; Clarkson, 1994; Donaldson & Preston, 1995; Mitchell et al, 1997; Phillips, 2003; Fassin, 2009) on the identification of stakeholders and their interest/influence. However, there was more emphasis on making the industry the focal point in contrast to earlier authors who made the firm the Centre of attention in any industry. Also, it is posited that for there to be internal stakeholder, there must be external stakeholder or vice versa; as the existence of one gives definition to the other, which further underlines the place of relationships amongst these stakeholders.

This finding also confirms with Stakeholder theory that an organization's value is created when it meets the needs of the firm's important stakeholders in a win-win fashion by attending to the interests of all their stakeholders - not just their shareholders. According to Jones and Wicks (1999) and Savage et al (2004), the basic premises of Stakeholder theory include among others; the organization entering relationships with many groups that influence or are influenced by the company.

The findings also concur with Freeman's theory of Stakeholder engagement (1984) which focuses on the nature of the relationships in terms of processes and results for the company and for stakeholders; the interests of all legitimate stakeholders are of intrinsic value and it is assumed that there is no single prevailing set of interests. The theory focuses upon management decision making and explains how stakeholders try and influence organizational decision-making processes to be consistent with their needs and priorities; and about organizations, it should attempt to understand and balance the interests of the various participants. For efficient and effective management and engagement of the stakeholders both primary and secondary they must have a good relationship and keep their influence and interest at level, without competing for supremacy.

In terms of categorization of stakeholders, it is evident from our findings that the result concurs with freeman's theory that explains stakeholders can be distinguished in terms of the immediacy of their effect and their location. In terms of effect, there are two categories which are primary and secondary stakeholders. Primary stakeholders are those who are directly affected either positively or negatively by organization's actions. They are those groups whose continuing participation is necessary for the survival of the organization.

4.4 Effectiveness of external stakeholder engagement in upstream oil and gas in Kenya.

The analysis in this section focuses on the questions in the survey instrument that asked about what stakeholder engagement means to the respondents, as supported by the close ended questions about their views of stakeholder relations generally as an idea. Also, responses to questions on stakeholder relationships in the industry as well as the relationships between host communities and the oil companies operating in the area are analyzed. To make the analysis of the close ended questions easier considering the qualitative nature of this study, the open-ended questions are analyzed first with the former used to support it.

In this section, the results of the quantitative analysis also carried out on the factors that affect the effectiveness of stakeholder engagement are presented. An ***ordinal logistic regression*** was used for this. The question of interest in this analysis is on the effectiveness of stakeholder engagement in the Oil and Gas Sector in Kenya. Particularly, respondents were asked the following, "How would you rate the effectiveness of external stakeholder engagement in the Oil and Gas industry in Kenya so far?" We seek to evaluate how the odds (probability) of scoring in a higher category (which suggests engagement is very effective) are affected by the scoring given to the factors that may affect engagement

4.4.1 Meaning of External Stakeholder engagement

The question asked here was *"what does External stakeholder engagement mean to you?"* which was designed to discover what stakeholder effectiveness as an idea means to respondents, as such understanding will influence their perceptions of its practice in the industry. There were different meanings and definitions given by respondents with a corpus of them clustered together according to themes and analyzed below.

“External Stakeholder engagement refers to ***the rapport created*** *between the various external stakeholders involved with the aim of* ***creating harmonious co-existence for optimal result****”* (S1).

“The ***time to time mutual*** *relationship between oil companies and their host communities* ***to bring about development****”* (S2).

The first quote above (S1) argues that there is the need for the External stakeholders in the relationships to make a deliberate effort and take actions to make their relationships work (*the rapport created*). This is being determinant of the kind of relationships that will exist between them, which further leads to the best outcome or high level of productivity (*creating harmonious co-existence for optimal result*). There is a strong case being made here for the argument that good relationships do not just happen between stakeholders, but that they must be worked out deliberately (*created, creating*). The second respondent (S2) introduces dynamism and cooperation as being crucial to the kind of relationship between these stakeholders that lead to development (*the time to time mutual*). The implication of this is that each stakeholder must be aware that things could change and so must make effort to undertake to maintain the relationship, as that is the only way to development. It could be asserted that the engagement of these stakeholders in their relationships with the aim of development as their joint goal makes them work together better (*to bring about development*).

Another respondent posits:

“External Stakeholder engagement mean that every external stakeholder involved ***must work together*** *to* ***achieve their aim despite their level of influence or interest****”* (S3).

This respondent regards stakeholder relations as being determined by how much cooperation exist between the External stakeholders involved (*must work together*) and the alignment of their different desires to make it a joint goal (*achieve their aim*). The respondent also recognizes that the different stakeholders will have varying levels of power as well as stakes, which they must set aside to cooperate (*despite their level of influence or interest*).

To further get support for the positions above, the closed ended question *"how do you rate effectiveness external stakeholder engagement?"* with options ranging from Very Good to Don't Know, was asked to discover the effectiveness of external stakeholder engagement means to the respondents.

Figure below shows that less than half of the respondents (40%) regard the idea of stakeholder engagements to be good, while some of them (22%) see it as being bad; with some torn between good and bad (36%) and a few (2%) don't have an answer to the question. This shows a relatively positive regard for what the respondents deem to be external stakeholder effectiveness generally as an idea, almost a similar number are not very certain of how to rate it.

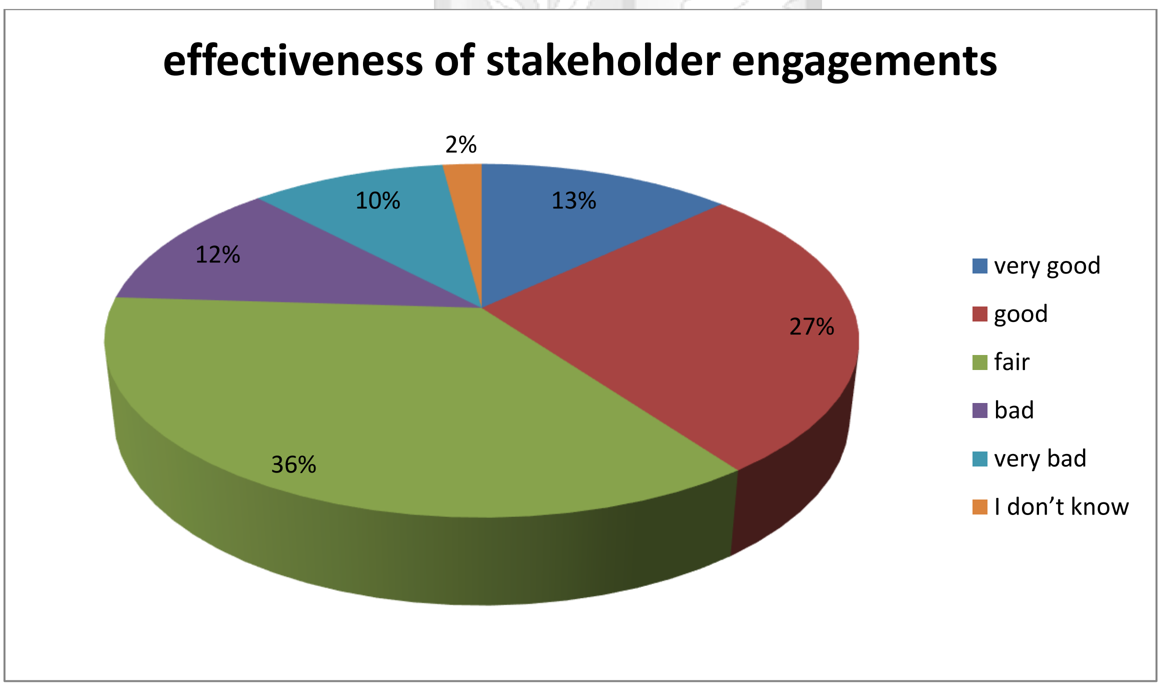

Figure 8: Effectiveness of stakeholder engagement

To complement on the above question another question was asked "*Engaging with external stakeholders enhances efficiency of operations of oil and gas industries in Kenya"* the question was a closed ended question the responded were given option to tick from (1-strongly disagree to 5-strongly agree). The question was meant to capture the overall performance of external stakeholder engagement in oil and gas companies in Kenya.

With a great number strongly agree (56%) that the external stakeholders in the industry enhances operations efficiency, agree (26%) neutral (26%) disagree (14%) and strongly disagree 15(%). These results show that the correlations between the engagements enhances operational efficiency of the oil and gas industries in Kenya.

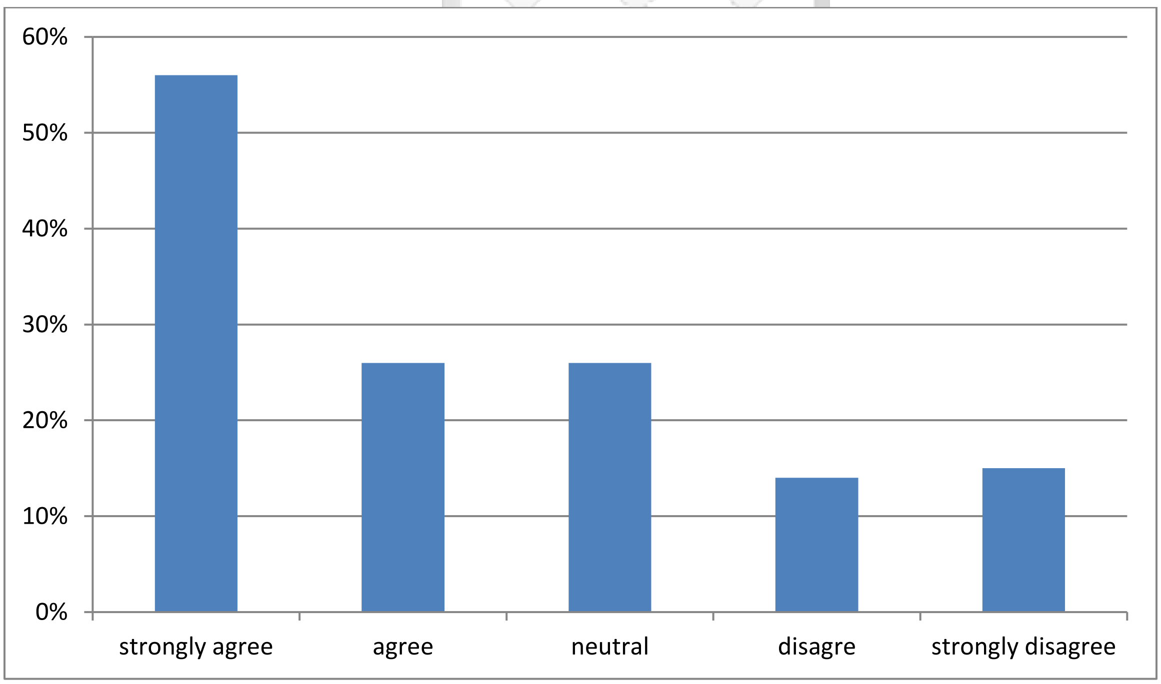

Figure 9: External engagement on operational performance

To further get support impact of involving external stakeholders another question was asked, the closed ended question read *"External Stakeholders engagement enhances the company's ability to conduct business in its operational sites"* the responded were given option to tick from (1-

strongly disagree to 5-strongly agree). The question was meant to understand deeper the impact of involving external stakeholder, the impact it has in the company conducting the business within the area.

Most of the respondents strongly agreed that companies' ability to conduct business is greatly influenced by involving the external stakeholders (67%) that the external stakeholders in the industry enhances operations efficiency, agree (41%) neutral (30%) disagree (1%) and strongly disagree 2(%).

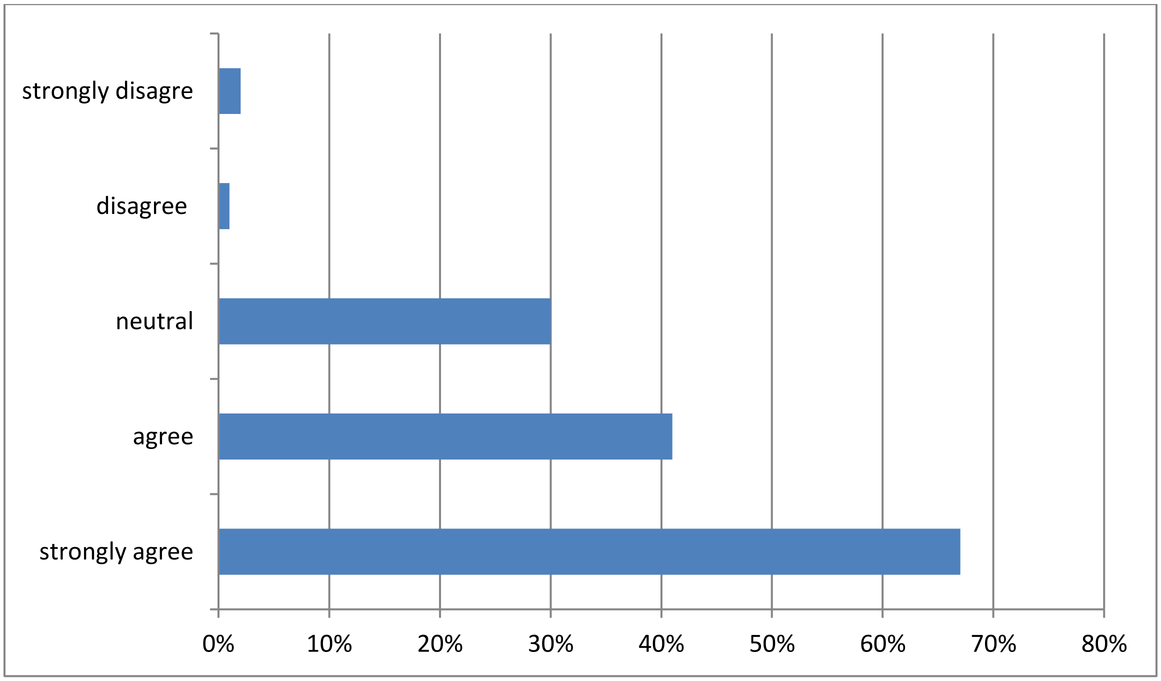

Figure 10: External stakeholder effect on company's ability to conduct business

An open-ended question was asked to complement on the above closed ended questions; does your company need any additional resources to enhance external stakeholder engagement?

"Of all the resources needed, the ***financial is the strongest*** *because it hires the professionals, the equipment, acquires the land, fund community development activities." (C1)*

The respondent company representative mainly states two resources with the funding from the shareholders to the company deemed as being more important than the natural resources (*financial is the strongest*). However, there is a variation within the statement as the land resources which were deemed as less important compared to the finances are regarded as being the determinant of how the industry operates (*the core of business*). Interestingly, employees are not mentioned as possessing the required skills and technical abilities that facilitate the use of all other resources mentioned, but only host communities and the oil companies are deemed as holders of critical resources.

The respondents were also asked how they can know the external stakeholder engagements is being effective. The question was meant to capture their divergent views on how they see external effectiveness.

The question read *"How do you know that the external stakeholder is effective in their operations"*

Respondent's views

*"**When I can see good hospitals, good piped water and good roads**, etc."* (C2).

*"**When** oil companies recognize their host communities, provide* ***employment and public amenities*** *for the ordinary man on the street"* (C3).

These quotes refer to the activities of the oil companies as being evidence that there are good stakeholder relations existing in the region, noting the place of the time factor (*When*). The first respondent (C2) highlights physical projects as being an important indicator about the type of relationships existing (*I can see good hospitals, good pipe borne water and good roads*) with this view personalized. For this respondent, it is important to sight these physical infrastructures, whether provided by the oil companies or by the government; which gives an indication to the importance attached to these kinds of projects. The second respondent (C3) agrees that physical projects are good but adds that empowerment of people also shows good stakeholder relationship (*employment and public amenities*). However, this is inconsistent with Stakeholder theory theorized by Freeman to the effect that effective stakeholder engagement does not mean that an oil company bears social responsibilities. There are many ways that oil companies can create value other than being providers of social amenities.

From the exclusive interviews, the respondents were requested to comment on the effectiveness of external stakeholder involvement by oil and gas companies in collaborative problem solving during the implementation phase, the respondents unanimously agreed that there was increased productivity, enhanced cooperation with stakeholders and reduced conflicts. This highly contributed towards achieving organizational strategic goals. In addition, all the five (5) respondents underscored the need for the organization to develop a strong stakeholder engagement policy by coming up with a structured mechanism to actualize it as the strategy had the potential to bring in more positive results.

Regarding the initiatives taken by oil and gas companies management in creating and sustaining a conducive climate within the organization to motivate the external stakeholders' engagement in the strategic process, the findings revealed that oil and gas companies provided employment opportunities to the locals, business opportunities for example tenders and transporters. The findings also revealed that one company initiated scholarships and programs where locals were the greatest beneficiaries. The company had endeavored to initiate scholarship program on an annual basis that would see beneficiaries being sent to study in top universities abroad to undertake unique courses related to oil exploration and excavation. Also, the organization engaged the local in drilling of boreholes as well as supporting local schools and dispensaries through improving education and health infrastructure as part of its corporate social responsibility.

About the effect of involving the external stakeholders in oil and gas companies, the respondents confirmed that success had been achieved through realizing reduced excavation interruption, increased outputs, greater cooperation and coordination with the 36 community which was significant in strategy implementation process. The respondents also confirmed that the outcome of external stakeholder involvement led to organizational competitiveness.

The findings above concur with some of the already done research, Friedman and Miles (2006) viewed external stakeholder engagement as "…essentially stakeholder relationship management". They point out that it is the relationships and not the actual stakeholder's groups that are managed. Thus, from the relational perspective, we can better appreciate the possible influence that external stakeholder issues, stakeholder expectations, perception (of both firm and external stakeholders), and stakeholder engagement could have on the quality of the relationship between a firm and its stakeholders. Firm-stakeholder relationship like any other kind of relationship requires communication in one form or the other for the parties to deal with issues and other concerns (Zadek & Raynard, 2002). External Stakeholder engagement plays a very important role in firm stakeholder relationships (Strong et al., 2001, Zoller, 1999). It is through engagement that a firm can know what external stakeholders‟ expectations are, the issues they have with the firm, and the perceptions of stakeholders (Chinyio & Akintoye, 2008, Noland and Phillips, 2010). The positive correlation between firm-stakeholder relationship and stakeholder engagement suggests that they change and move in the same direction. It can thus be argued that the more robust stakeholder engagement is, the better the quality of the firm-stakeholder relationship. External Stakeholder engagement is viewed as a critical component in firm-stakeholder relationship management (Friedman and Miles, 2006, Lerbinger, 2006). This has also been proven in our findings.

The findings concur with Freeman (1999) theory which puts, this as “if managers want to maximize shareholders’ wealth, they should pay attention to their five key stakeholders”; shareholders, investors, employees, customers and suppliers. In this theory, stakeholders are treated as both means and ends. The general proposition for this theory is that managers of organizations are employed based on mutual trust and cooperation between them and the stakeholders.

4.5 External stakeholder engagement policies

This part analyses laws, regulations and proposed bills to get a clearer understanding of the legal environment within which the Government of Kenya in terms of oil and gas exploration.

The data from this section was collected through both primary and secondary data. Secondary data was retrieved through journals, magazines, books, constitution of Kenya and published local theses. On the other hand, primary data was collected through questionnaires and interviews to complement the secondary data. We will start by analyzing the primary data and compare it with the secondary data thereafter.

The respondents were asked if they were aware of policies in the oil and gas sector, the question read, “*Are you aware of the policies in oil and gas industries?”* with options provided for each attribute to be ticked against each stakeholder. This question was designed to discover about if the respondents are aware of the laws and regulations in the extractive industries. The question was a closed ended and the respondent could pick one question from the provided options. The options were, I am aware, I am not aware, I don’t know.

The data shows that the greater percentage said they don't know (57%) and 30% they were not aware and then 13% said they were ware. These results show that most of the people are not even aware of the policies managing the extractive sector in Kenya.

The results are presented in the figure 11;

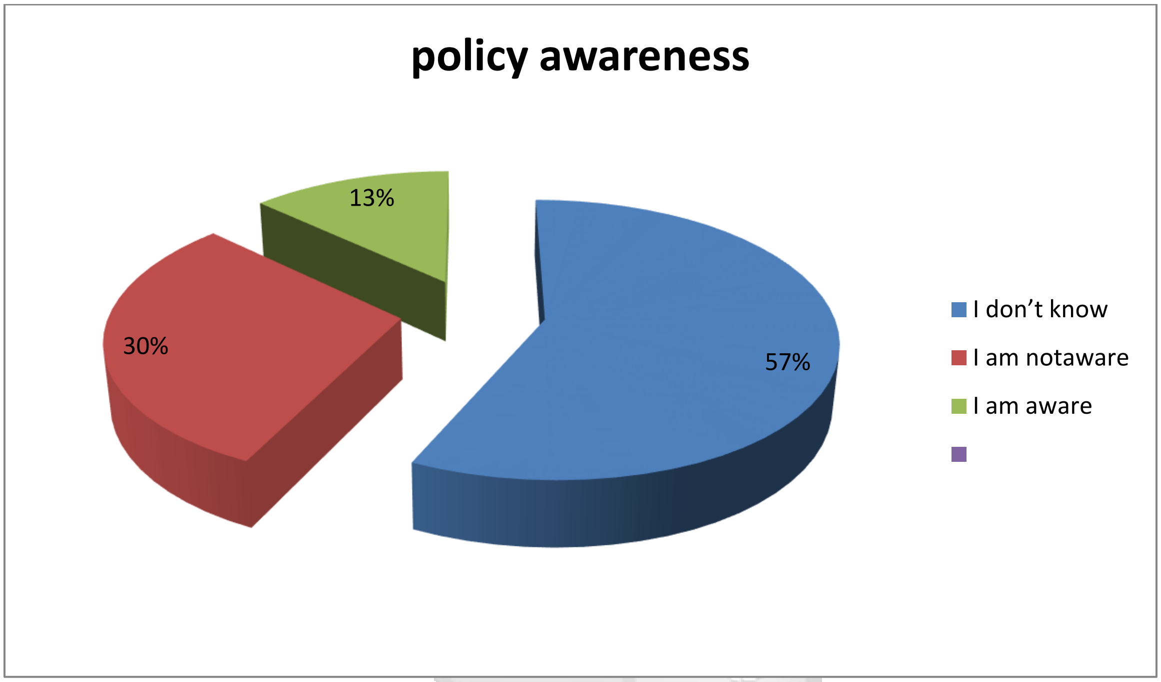

Figure 11: Policy awareness

The respondents were also asked to rate the degree at which the level of the laws and regulations affect external stakeholder involvement in the gas and oil industries in Kenya. The question was a closed ended question and it gave the respondents five choices to rate from (1very greater extent - 5 no extent). The question read "*to what extent does Kenya laws and regulation affect external stakeholder engagement activities in the oil industries*? "This question was designed to discover about if the respondents are really aware of the impact laws and regulations have in the activities in the extractive industries in Kenya.

The data showed that the laws and regulations have a great impact to the activities external stakeholders' engagements with a very great extent recording a value of 56% followed closely with great extent at 49%, little extent 27%, very little extent 31% and No extent 17%. As the data showed very small percentage thought that the policies (Kenyan laws and regulations) has no impact on activities of external stakeholder engagement in the oil and gas industries.

The results are elaborated in the figure below:

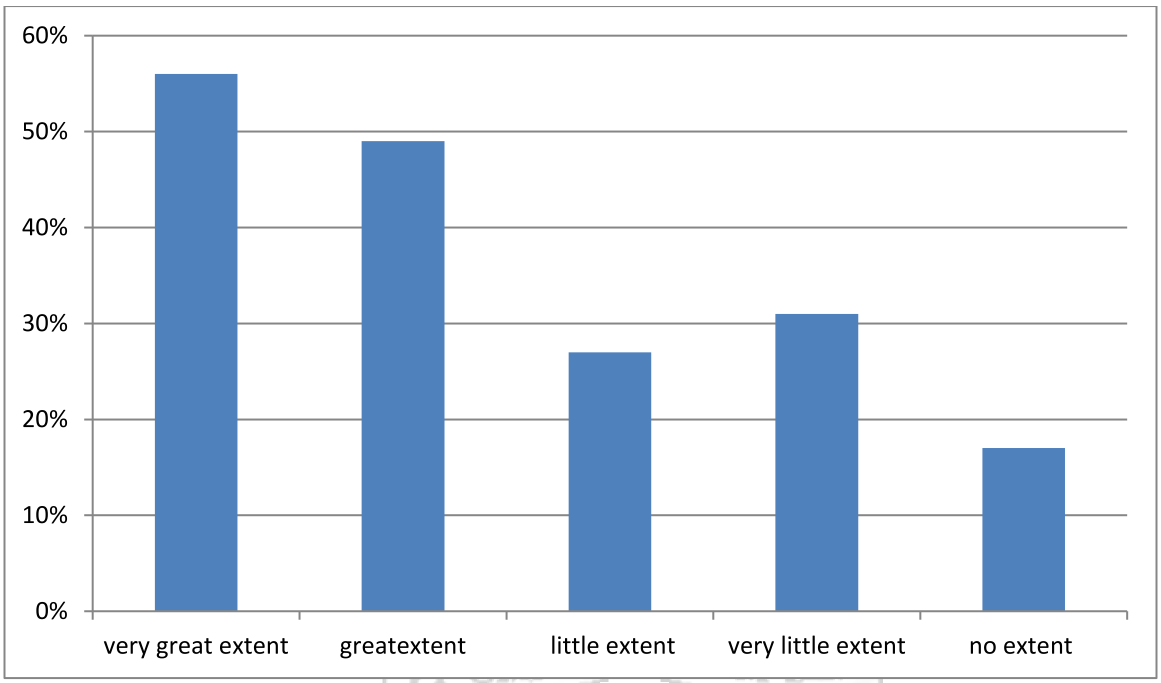

Figure 12: Extent of impact policies on external stakeholder engagement

The interview questions were asked as a follow up questions to the above and were designed to discover how the gaps in policies in external stakeholder engagement. The first question was *"how do you ensure policies signed in memorandum between different external stakeholders are upheld?"*

Two respondents' views

*"**Through meetings and dialogues** between all stakeholders. **Ideas, views and opinions respected** through **Memorandum of Understanding** (MOU)" (D1).*

*"By relating with the communities and **doing what has been signed in the MOU** between the community and the company"* (D2).

The first respondent (D1) notes that the oil companies engage with the host communities and get them involved in the decision-making processes (*meetings and dialogues*). These engagement sessions are deemed to be fruitful as the terms are said to be honored by the parties involved (*Ideas, views and opinions respected*) and this is done through the mediums of the different agreements they have with each other (*Memorandum of Understanding*). The second respondent (D2) supports the place of honoring agreements by acting on their terms as being very important in the management of these relationships (*doing what has been signed in the MOU*). This tends to be a rhetoric reinforcing the point that respect, honoring and acting on the agreements between stakeholders in the industry affects the relationships amongst them. Also, there is presented above a perception that the host communities are active participants in their relationships with the oil companies, especially when it comes to MOUs.

Another question was asked on how the role of government can help in ensuring that policies formulated encourage external stakeholder involvement in the oil industries, the question read: "*which policies do you feel the government should put in place to guide relationships of external stakeholder"*

Respondents views *"By initiating **negotiation and mediation** in dispute situations"* (D3).

*"Government passes **laws that guide against disturbances** against the oil*

companies” (D4).

“By ***setting up mediums*** *to meet the people's needs,”* (D5).

Here the government is presented as carrying out its duties of managing these relationships properly, with the first respondent (D3) stating the roles they play in crisis situations which are reflective of a neutral body (*negotiating and mediating*). The second respondent (D4) alludes to the government carrying out its responsibilities, especially in the enactment of laws but does so to protect the oil companies from any instability (*laws that guide against disturbances*). Aside from these, the government is also seen by the third respondent (D5) as acting in other ways targeted at responding to the aspirations of the people (*setting up mediums*). This response creates a gap in terms of oil exploration laws and regulation according to the respondent, the respondent feels that the government should make laws that protect the oil companies by doing so, it can encourage more investors in the extractive industries.

The respondents were also asked to suggest policies that should be put in place to ensure efficient external stakeholders involvement in extractive industries.

The question read “*which policies do you suggest to implemented to ensure effective external stakeholder involvement in the oil and gas industries”*

The respondent’s views

“The government ***should*** *come up with a policy that the host communities* ***should*** *have* ***control over the oil industry*** *and* ***pay taxes to the government****”* (D6).

“a policy Communities take over from government and ***issue licenses to oil companies****”* (D7).

The views expressed here insist that the alternative is the institution of what is referred to as resource control by the host communities where oil exploration and production takes place. The first respondent (D6) explains that this would mean government handing over their present authority over the industry to the host communities (*control over the oil industry*) who would in turn contribute to the government from their revenue (*pay taxes to the government*). The use of rhetoric is aimed at how the views expressed here are regarded as being the panacea to the issues in the industry (*should*). The mention of *taxes* shows that this respondent sees the major challenge between the stakeholders as being the distribution of the resources that are generated in the industry, especially economically. And hence if a new policy is formulated is made for host community to have control over exploration of oil and gas, we can have a better utilization of resources and host community as external stakeholder can benefit. The second respondent (D7) agrees with the transfer of control from the government to the host communities, but argues that the latter should be the ones to undertake negotiations and discussions with oil companies before oil exploration is started (*issue licenses to oil companies*). These views could be reflective of the neglect felt by members of the host communities who think they have been sidelined from the processes leading up to the issuance of licenses to the oil companies and resource distribution. This shows that there is also need to consider a formulation of policies formulated to ensure host communities have control over their resources.

The respondents were also asked to comment on need of involving international bodies in managing the external stakeholder relationships. The question read, "*Will you encourage the use of international bodies to manage external stakeholder relationship in oil and gas industries Kenya?"*

The respondent's views

"Bring in the ***international bodies like the UN*** *on human right and some* ***notable members*** *of the human rights organization in Kenya"* (D8). *"Seeking* ***professional assistance*** *for proper management* ***can serve better managing external stakeholder relationship****"* (D9).

These respondents disagree with how these relationships have been managed thus far and so think the process should be opened, with the first respondent (D8) suggesting the involvement of international organizations (*international bodies like the UN*). Also, there is a call for the involvement of individuals and local groups with track records with reference to a lack of reputation as being responsible for the way things are in the industry now (*notable members*). The second respondent (D9) thinks an alternative is getting others deemed to be knowledgeable enough on board (*professional assistance*), which hints that those managing these relationships now are not doing a good job. However, this is not claimed to be the only option available for an improvement of these relationships (*can also serve*), which could also be a variation implying that the processes in place are working but only need support. These views above could be a reference to the involvement of bodies deemed to be neutral; giving an indication of how much mistrust there is between the stakeholders as also noted by Interviewee.

The researcher sought to found out if really the communities who are among the major external stakeholders where the oil and gas industries are extracted from are well involved. This theme came out of the data as the participants gave an indication that the discussion of external stakeholder engagement cannot be complete without a discourse of the host communities' levels of participation in the industry.

The researcher began by asking the respondent "*Why is there low public participation from the host community in oil and gas extraction industry, ...do you feel like there are policies guiding public participation"*

Respondent's views

"Like now in Kenya we have the Petroleum act which has given some level of opportunities to the host communities which they ***have been agitating for****. It is not just about regarding yourself, you don't play a* ***major part in decision making****; you don't know how these decisions are made, where they are made..."* (D10).

The respondent (D10) notes that legislation is one way of improving the participation of the host communities in the industry as the PIB is expected to do, which would reduce the instability in the region (*have been agitating for*). The participation being expected is not meant to be just at any level but at a higher decision-making level (*major part in decision making*).

The researcher also sought to found the level of trust among the external stakeholders. This theme presents the thoughts of participants when it comes to the trust existing in relationships between external stakeholders in the industry.

The question asked here was "*does trust between the external stakeholder exist*"

"There is no trust ***whatsoever****, there is no trust. Anybody telling you that there is a trust in between is telling you lies,* ***bunch of lies****"* (D11). *"There is no trust, if there is no cordial relationship between you and the next person, there is no trust; there is no way you are* ***building your trust*** *in the person"* (D12).

"Communities ***don't trust*** *their leaders and because they* ***don't trust*** *their*

leaders, the communities are also accusing the oil companies of conniving with their leaders" (D13).

The first respondent (D12) emphasizes that the trust between the stakeholders is non-existent with the use of an extreme case formulation (*whatsoever*) further stating that any attempt to say otherwise would be reflecting the height of dishonesty (*bunch of lies*). The second respondent (D13) agrees by hinting at a connection between relationship and trust with the later depending on the nature of the former, while also indicating that efforts must be made to get it right (*building your trust*). The third respondent (D12) regards the lack of trust to begin within communities between community leaders and their people and then affecting the companies, as this point is made with the use of rhetoric (*don't trust*). The last respondent (D11) agrees with the link between trust and stakeholder relationships, by attributing that the lack of trust is responsible for the violent actions of the host communities (*decided to take the laws into their hands*). This means if they trusted the other stakeholders, there would be no need to apply force in getting the needs met in their relationships with each other. The views expressed here indicate that trust is not established overnight; it must be earned and built by the stakeholders involved, while realizing that it impacts on relationships between the stakeholders as well as being impacted by it.

4.6 Current legal framework in Kenya and gaps

This section describes policies gaps and current legal framework governing oil exploration in Kenya. The data from this section was mainly obtained from secondary sources.

4.6.1 Institutional Framework for Petroleum Exploration and Production in Kenya

To achieve optimum exploration and production of oil, there must be in place requisite institutional framework to oversee the implementation and enforcement of the policy and legal frameworks respectively. In a word, neither the law nor policy can succeed in achieving optimum petroleum exploration and production of oil without strong and capable institutions.

The institutions tasked with regulation of oil exploration and production in Kenya is mainly players in the energy sector and environment management and conservation. These include the Ministry of Energy, National Environment Management Authority, Provincial Administration and Local Authorities. The role of the provincial administration and local authorities will soon be taken over by devolved governments of the respective counties where oil resources are situated. The main institutions under the Ministry of Energy in Kenya whose role is relevant to oil exploration and production are National Oil Corporation of Kenya and Energy Regulatory Commission (ERC)

Specifically, the role of National Oil in petroleum exploration includes:

a) Overseeing the fulfillment of petroleum exploration companies' obligations in accordance with contracts signed with the Kenya Government.

b) Providing and disseminating exploration data from various exploration activities in form of reports and promoting the same to oil companies in order to attract them to do exploration in Kenya.

c) Undertaking various explorations works in various basins in accordance with available capital outlay, technical expertise and equipment available. Due to limitations of risk capital from government, to date some exploration activities such as exploration drilling have been left mostly to international oil companies.

d) To manage on behalf of the government storage and disposal of government's share of oil after discovery.

The functions of ERC include regulating the importation, exportation, transportation, refining, storage and sale of petroleum and petroleum products. The ERC is, thus, relevant only with respect to petroleum exploration and production for the purposes licensing of petroleum import, export, transport, storage, refining and sale. These functions are relevant where exploration is successful and the need for production of the locally produced petroleum arises. ERC's petroleum department deals with matters touching on production and regulation of petroleum in Kenya. The functions of the Petroleum Department include:

a) Review of government policy on petroleum;

b) Governing the petroleum sector with focus on licensing, issuing of construction permits, developing standards for bulk petroleum transportation and petroleum costs and prices monitoring;

c) Take the lead in the formulation, review and enforcement of rules, regulations and codes for the petroleum sector. (consitition,2010)

It emerges from the analysis made above that the legal and the policy and institutional frameworks are not adequate to ensure effective stakeholder engagements in the upstream oil and gas industry in Kenya. Save for the fundamental principles on the management of natural resources by the Stateunder article 69 to 72 of the Constitution, the examined statutes have no provisions specifically targeting the interests of the concerned parties. The external stakeholders are not covered by the role of the above bodies hence new bodies should be formed to cover the rights of all stakeholders involved.

4.6.2 Laws and regulations governing oil explorations

In Kenya, exploration and production of oil and gas is governed by the Constitution, Petroleum (Exploration and Production) Act and other mining and environmental management laws. The main objective of the Petroleum (Exploration and Production) Act is to regulate the negotiation and conclusion by the Government of Petroleum Agreements relating to the exploration, development, production and transportation of petroleum. The Act provides guidelines upon which the Government shall enter into contract with a contractor for oil exploration. Further, the Act stipulates the minimum conditions upon which the Kenyan government is to contract for oil exploration and production (constitution, 2010).

The Kenyan Constitution gives regulatory powers over natural resources to the central government. Article 70 of the Constitution tasks the government with ensuring sustainable exploitation, utilization, management and conservation of the environment and natural resources and ensure the equitable sharing of the accruing benefits. This provision of the constitution is yet to be implemented through an Act of Parliament. Thus, as matters stand, in Kenya, the petroleum exploration and production sector is still regulated through the system which was in place under the old constitution.

The terms and conditions of oil and gas exploration contracts are subject to negotiation and are governed by the Petroleum (Exploration and Production) Act, the Petroleum (Exploration and Production) Regulations, the Income Tax (Amendment) Act made to specify the fiscal regime applicable to petroleum operations. However, like in the case of other African countries, the enforcement of these rules, regulations, and mechanisms has been insufficient and ineffective ((constitution, 2010). The statement on the inadequacy of the legal and policy framework on oil and exploration as expressed in the Oil and Gas Supplement to the African Development Report is very relevant for Kenya. In any case, Kenya as a country has "…inadequate policies and legal frameworks for managing oil and gas resources." The available laws "do not meet the requirements of international organizations in terms of transparency, accountability, and other good governance criteria." Further, it suffices to state that:

*"…lack of modern oil and gas exploitation policies is a severe drawback to the development of the sector. These include policies guiding contracts, documentation of exploitation, code of conduct and exploitation practice, training and development of local staff and community members, oil and gas research, financial guidelines, and environmental regulations." (*Africa Development Bank, 2009, pg. 182)

There is need to overhaul the law to reflect the change and especially give county governments a role in vetting application and licensing oil and gas exploration and production in Kenya. This will not only guarantee public participation, but will also facilitate equitable distribution of resources to the people close to where petroleum resources are located. The Australian system which reflects a balance in powers between the federal and state governments offers a viable option in consideration the best legal framework for Kenya to adopt in regulating petroleum exploration and production as shown above.

4.6.3 Protecting the stakeholders and investors

To ensure the security of the investor, stakeholders the legal, policy and institutional framework for oil exploration must capture the economic rent attributable to petroleum as well as exhibit the attributes of a strong legal system capable of safeguarding and upholding private property rights. In other words, in addition to the relevant petroleum exploration and production laws, there should be in place an independent judiciary, separation of powers and strict observance of the rule of law to guarantee unfettered enforcement of the rights of the investors if need arise. The licensing framework in place should also accommodate the requisite legal certainty to ensure that the investors are guaranteed the security of their investments given the capital-intensive nature of petroleum exploration and production ventures.

The relevant policy on oil exploration and production in Kenya does not lay emphasis or focus on oil exploration and production while the relevant institutional framework dwells on energy generally, denying exploration and production of oil adequate and specific attention. The policy framework also does not specifically address how the interests of government, the investor and the local communities in so far as exploration and production is concerned are to be reconciled. As a result, while the Constitution lays a strong rule of law structure to safeguard the interests of investors in the country, there is still legal uncertainty as to the impact of the provisions of the constitution that run counter to the rights and interests of investors as highlighted above. This matter deserves to be addressed comprehensively in the future by clearly outlining how the provisions of the new Constitution of Kenya affect the energy industry and the oil exploration and production sector

Further to also develop a policy framework for oil exploration and production that boasts the following five key objectives:

a) Offer high levels of certainty to investors and other stakeholders about their rights and responsibilities and the process of decision making;

b) Provide a highly competitive operating environment, in an economic sense;

c) Support the industry's efforts to achieved sustained wealth generation through growth, innovation and enhancement of the value of its output before export, including the role of the government in collecting and disseminating pre- competitive geo-scientific data to assist in attracting investment;

d) Ensure good stewardship of the environment and community interests;

e) Allow industry to respond confidently to international challenges and seize international trade and investment opportunities.

4.6.4 Public participation

As highlighted, the existing laws and regulations governing upstream oil and gas industry do not make specific reference to public participation. However, the proposed Petroleum Bill 2017 has provisions for public participation in line with the provisions of Constitution of Kenya, 2010. The Constitution provides a strong legal basis for public participation in governance. With respect to the Legislature, Article 118(1)(b) of the Constitution requires Parliament to 'facilitate public participation' in its work. Additionally, Article 119(1) states that citizens have the 'right to petition Parliament to consider any matter within its authority'. The constitution recognizes that public participation is a human right. Congenital to democracy is the right of the public to participate in governance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This final chapter of the study focused on the summary of the research findings, recommendations, limitations of the study, suggestions for further research and conclusions. The findings were presented in respect to the main objectives which were to: To establish major external stakeholders and their interests in upstream oil and gas sector in Kenya, to evaluate the effectiveness of external stakeholder engagement in upstream oil and gas in Kenya. to analyze the gaps in the existing policy tools to enhance effective external stakeholder engagement in upstream oil and gas sector in Kenya.

From the quantitative data analysis, none of the independent factors came in significantly to influence the rating on the effectiveness of stakeholder engagement. This is because the p-values associated with all the coefficients are greater than the level of significance of 5% (95% confidence interval). However, there are several reasons that could have contributed to this phenomenon. Firstly, upstream oil and gas industry in Kenya is still in its infancy stages and to acquire data, the sample population was rather limited.

Political factors were seen to have the highest magnitude from its coefficient, which implies that more focus needs to be placed on its influence on effective engagement, to reduce this influence. This finding of a negative influence of political factors concurs with that of Verdugo et al. (2013) who established that political instability has a negative and significant impact on the interest of external stakeholders and it affect the possibility of the stakeholders engaging themselves or investing their money in the companies they are not confident on what the future holds. Peace and political stability plays a major role in influencing involvement of external stakeholder engagement. These assertions can be referenced to the challenges the upstream oil and gas industry in Kenya or indeed many other Vision 2030 infrastructure project are facing in Kenya. As Petroleum Bill, 2017 is going through first and second reading in the National Assembly, legal-political factors have become a major impediment in the enactment of the law especially with regards to revenue sharing formula. On one hand, the National Government, ostensibly in the interest of equity distribution of resources, have proposed a formula as 70%, 20% and 5% share for national government, county government and host communities, respectively. On the other hand, local politicians from regions with active oil and gas exploration activities, have mobilized their communities to frustrate any development of these resources until the national government give in to their demands. This is a classic example of how legal-political factors negatively affect effective stakeholder engagements in upstream oil and gas in Kenya.

Having said that, data has shown that socio-cultural factors can positively affect effective stakeholder engagements. Upstream oil and gas companies spend inordinate amount of time studying their stakeholder in context of cultural and social norms and nuances with a view of aligning their strategies to host communities. As shown by data, the more they understand culture of the people, the better they engage with them. However, suffice it to say that no single independent factor can looked at in isolation. There is a lot of overlap amongst the variables and there could be other hidden factors that would influence effective stakeholder engagements.

It was discovered that value creation amongst different stakeholders are crucial in the determination of who the various stakeholders are as well as the level of influence that they wield in these relationships. This value which is manifested in various forms for the different stakeholders is identified as being the main reason why these relationships exist in the first place.

This makes it very important that the different stakeholders make effort to ensure that they manage and control such resources in ways that are beneficial and fair to all other stakeholders with whom they have interactions. The management of these resources is mainly the responsibility of the government and the oil companies, though every stakeholder is meant to contribute to ensuring that these resources are properly managed to benefit every party involved.

The government has been shown by the data as ineffective in carrying out its primary responsibilities of providing basic amenities for the people, thereby making the activities of the oil companies to become unnoticed despite the efforts being put in by the latter. This is also supported by the works of authors on the subject such as Epee (2006) and Item (2006). This has attracted different responses from the host communities, as the oil companies are not being concerned about the welfare of the people despite the profit they are making from the area. In addition, the government is not seen to be enforcing the many regulations that would aid the smooth and proper running of oil operations in the industry and this is a major reason for the level of instability and insecurity in the region.

Findings also indicate that immediate concern of local communities on how to make the most of the exploration opportunity by agitating for preferential access to employment and training opportunities availed by the oil-exploration companies. For instance, in the case of the recent oil find in Turkana County, the community would be interested to realize improved standard of living by tapping the resources accruing from the oil exploration and production activity. Further, communities are interested in guaranteeing minimal disruption to the cultural and communal way of life, access to their environmental right to clean, healthy and safe environment and public participation in the decision to explore and produce oil within the community's area of occupation.

The host communities will appreciate that the much-anticipated development, infrastructural and otherwise, that they seek cannot become a reality if they do not give given a chance and work in partnership with the oil companies and the government to make things work. It is also made clear that the host communities do place a lot of expectations on the oil companies, most of which are misplaced as some of such are the responsibilities of the government. They are also made to understand that their internal systems of leadership and interaction affect their relationships with other stakeholders, so they must endeavor to minimize crisis in such interactions.

5.2 Conclusion

The study concludes that proper effective external stakeholder engagements led to increased efficiency and reduction of costs in their operations, achieved through greater cooperation and involvement of stakeholders in the realization of strategic objectives of the oil and gas companies. Both the study and Stakeholder theory as postulated by Edward Freeman disagrees with the myth created by scholars like Milton Friedman that paying attention to all stakeholders' results in diminishing shareholders value. On the contrary, effective and inclusive stakeholder engagement which is based on value creation for all stakeholders (including shareholders), is the only way to ensure such projects like upstream oil and gas are successful. The interests of all stakeholders should be aligned and all stakeholders should be going in the same directions. Therefore, the only way to create value for shareholders is to pay attention to all stakeholders. The study further concludes that success is easily achieved when a firm cultivates better external stakeholder engagement practices which enhance increased outputs, greater cooperation and coordination with the key stakeholders which significantly leads to a successful strategy implementation process and thus achieving goals of extractive industries.

Further, there should be frameworks for guaranteeing national participation through shareholding in licenses and provision of goods and services by the country's entrepreneurs. The extent to which the country's private sector and its entrepreneurs can participate in oil and gas activities is currently limited by their financial capacity, together with their management and technological skills. It is therefore necessary for the country's private sector to acquire and develop the skills necessary to participate in this sector of development, and where possible, for it to be provided with the opportunity to participate.

5.3 Recommendation

The study recommends effective and all-inclusive stakeholder engagement, while paying very close attention to communities as key stakeholders and this should be done considering political, social, cultural, economic, technological context. Any effective stakeholder engagement process should be specific for specific communities and oil and gas companies must resist the temptation to replicate this process without these socio-political nuances. Communities' should be educated on the importance of the investors and how to treat them, this will make the communities to better understand and appreciate investors seeking to invest in Kenya. However, the government must lead these community engagements to ensure that the expectations of members of communities are properly moderated and the role of the investor clearly understood. Looking at most Vision 2030 flagship projects, very few of them have been execute effectively, on time and budget. From Single Gauge Railway, Kinangop Wind Power Project, Lake Turkana Wind Power, proposed AMU coal-fired plant, among many others, have either stalled or are operation behind schedule. A developing economy like Kenya cannot afford this state of affairs. It is important that government (both National and counties) establish policy frameworks on how to effectively deal with stakeholders.

Effective stakeholder engagement by investors in this sector should not be confused with the provisions of basic amenities like education, healthcare and livelihoods. This function squared rests on governments (both national and county). Having said that, the investors must always corporate stakeholder responsibility and ensure they are seen by host communities, among other stakeholders, part of that community. They must look hard on ways to create value for all the stakeholders both internal and external.

The government should consider reducing barriers through creating an enabling environment to provide a conducive environment for attracting local and international partners. This is because investors play an important role in creating job opportunities and domestic tourism; they also play an important role in the growth and development of an economy.

The Constitution of Kenya, 2010 provides a strong legal basis for public participation in governance. With respect to the Legislature, Article 118(1)(b) of the Constitution requires Parliament to 'facilitate public participation' in its work. Additionally, Article 119(1) states that citizens have the 'right to petition Parliament to consider any matter within its authority'. Public participation exemplified the principle of 'nothing about us without us' which is participatory governance and should be viewed as a human right. Congenital to democracy is the right of the public to participate in governance. Participation in decision-making is both an end in itself and a means to an end and that inclusive governance is more sustainable. However, there are still challenges of public participation with regards to citizenry. Mostly, it is because majority of citizens especially in marginalized areas where these extractives are found are unable to interrogate and interact with the content full of legalese. Therefore, it my recommendation that a lot is required to ensure that public participation is done in more effective way.

Further, the study recommends the necessity of key stakeholder policies by the Kenyan government to guarantee an enabling environment for international dealings when engaging and attracting international businesses to Kenya. Business partners should be fairly treated to strengthen ties and relationships locally and internationally. With a stable stakeholder involvement policy investor can invest locally without hindrances and Kenya can be able to expand its market globally through attracting foreign investors.

The Kenyan government should invest on security through, securing the borders, providing proper training to the military and the police force, increasing intelligence and other security agencies. Foreigners need to be confident while investing in a foreign country and the government should take all the necessary measures to ensure that foreigners feel safe when engaging in business deals and partnership.

5.4 Limitations of the Study

The undertaking of any research project is fraught with many challenges and sometimes shortcomings that could impact the process of carrying out such a study as well as the way its findings are viewed and accepted. Hence, this section aims to give an insight into such issues, even as Denscombe (2010) emphasizes that there is not one research without a limitation, and this one is not an exception. As a result, he advises that the researcher should be able to freely point out such challenges that could impact the results of the study, as it gives an idea of what the possibilities are, based on the approach adopted.

From the quantitative data analysis, none of the independent variables factors came in significantly to influence the rating on the effectiveness of stakeholder engagement. This is because the p-values associated with all the coefficients are greater than the level of significance of 5% (95% confidence interval). However, there are several reasons that could have contributed to this phenomenon. Firstly, upstream oil and gas industry in Kenya is still in its infancy stages and to acquire data, the sample population was rather limited. Further, upstream oil and gas industry is very specialized and new in Kenya and many respondents were not speaking from the point of Knowledge rather, they were speaking from what they had from other people whom themselves my not have deep insights about the industry.

Also, it was not easy to convince the respondents to participate in the study. Multinational Companies are known to work under very strict confidentiality to secure any unauthorized access to information. Most of the respondents agreed to participate on condition that the information was not to be divulged to any other party other than for academic purposes only.

Finally, this research was highly constrained by resources, such as time and finance. Considering that the study was undertaken within a short time bound, it was challenging for the researcher to be more encompassing in the various aspects of the research process. Further, upstream oil and gas industry is still in its infancy stage and hence very limited data is available to conduct this study. It is hoped that this research will attract researchers to this industry and hence create information ecosystem that will help in furtherance of the industry.

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APPENDICES

Appendix I: QUESTIONNAIRE

I would like to inform you that participation in the research is voluntary, and you can wish to withdraw from the study at any stage. There are no right or wrong answers to any of these questions we just really want to hear about your views and experiences. External Stakeholder engagement is very key to the work of external stakeholder engagement particularly to oil and gas sector mainly because their work affects and is in turn affected by many stakeholders whose interests and needs are potentially conflicting thereby posing some challenges to effective external stakeholder engagement. This tool is therefore designed and used to collect data on external stakeholder engagement in oil and gas sector in Kenya.

Section A

1. What is your position in the company/organization?

2. How long have you worked in the company/organization?

3. Does your Company/organization have stakeholders?

4. If yes in (1) above, who are your

a. Internal Stakeholders?

b. External stakeholders of the company?

Section B: External stakeholder identification and interest in oil and gas industries

5 How do you identify your Stakeholders? Tick appropriately; you can tick more than once

a. Project team brainstorming □

c. snowballing (through peers) □b. Stakeholder forums□

d. Combination of ……………………

e. Other……………

6. What is/are the bases for your stakeholder identification? Tick appropriately; you can tick more than once

a. Influence□ b. Mission and vision based□ c. Interest based□

d. Geographic reasons□ e. Combination of ……………………………

7. What is the role of different groups of stakeholders in your organization?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

10. How does the company/organization identify its external stakeholders and who are involved in the process of choosing them?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

11. What roles and tasks are there in your organization in terms of external stakeholder engagement? Are some roles or tasks outsourced?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

13. Does political instability affect the interest of external stakeholders on oil and gas extractive industries?

Yes () No ()

If yes, please explain

…………………………………………………………………………………………………

…………………………………………………………………………………………………

………………………………………………………………………………………………..

14.Rate the extent to which the following factors influence effective external stakeholder engagement process in oil and gas industry? Use a scale of 1 to 5 where 1 is to no extent and 5 is to very great extent

Factors Influencing external stakeholder engagement	**1**	**2**	**3**	**4**	**5**
Technological factors					
Political factors					
Legal factors					
Socio cultural factors					
Economic factors					
Other (Specify……………………………………………)					

15. In your opinion, what is the level of influence or interest of the above stakeholders? Please tick the relevant boxes for each stakeholder.

Stakeholder Influence:	**Ability to make others do what one wants**	**Interest: Impact of activities in the industry on the stakeholder**

Oil Companies

Host communities

Government

Employees

Suppliers

Shareholders

NGOs

The Environment

16. From the list of stakeholders above, which stakeholder group(s) do you have experience of working with? (Please illustrate with examples).

____

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17. Academics have said that stakeholder relations are all about the kind of relationship that exists between different stakeholders in an industry or environment. In this case, it is applicable to oil companies and host communities. Considering the above, what does Stakeholder relations mean to you? ____

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Section C: Effectiveness of External stakeholder engagement

18. How would you rate the effectiveness of external stakeholder engagement in the Oil and Gas industry in Kenya so far?

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

19. Engaging with external stakeholders enhances efficiency of operations of oil and gas industries in Kenya.

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

20. External Stakeholders engagement enhances the company's ability to conduct business in its operational sites?

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

23. What do you think; does your company invest enough resources in external stakeholder engagement? Should it invest more? How realistic would it be?

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24. What are your company's strengths in terms of external stakeholder engagement? Is there something that you company could do better in terms of external stakeholder engagement?

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25. Any other comments on the effect of external stakeholder engagements on effectiveness of performance of oil and gas industries in Kenya?

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External stakeholder engagement policies

26. External Stakeholder engagement policies and practices of the company achieves the desired objectives

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

27. Does external Stakeholder's expectation influence formulation of Stakeholder engagement policies and practices? Tick appropriately

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

28. External Stakeholders expectations influence the company's Stakeholder engagement policies and

practices

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

29. The Stakeholder engagement policies and practices of the company are flexible

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

30. Achieving Stakeholder engagement objectives is most challenging at the policy development phase in oil and Gas industries.

(5=Strongly Agree4= Agree3=Neutral 2=Disagree 1=Strongly Disagree)

31. Do you think that your company has now the external stakeholders' trust and approval to operate? If yes, how have you got them? If no, why do you think you haven't got them?

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32. Do you think mechanisms for ensuring transparency in the negotiation process are working effectively? If not, how do you think it could be improved?

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33. Do you apply some international or national standards or best practices for the external stakeholder engagement?

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34. From your experience, which policies will you recommend to better enhance external stakeholder engagements in oil and gas industry?

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External Stakeholder Engagement challenges

15. Has your company had problems with some external stakeholders? If yes, what kind of? How have they affected your business?

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16. Is there something that makes the external stakeholder engagement challenging or even problematic? What could these factors be? How would you categorize them?

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17. Discuss about the possible challenges (inside the organization, external in the business environment, other external factors)

Appendix II: Interview for NGOs

1. How would you describe the relationship between oil and gas companies and their stakeholder communities?

2. What in your opinion should oil and gas industries do differently to achieve a more positive and mutually beneficial relationship with External stakeholder communities?

3. In what ways do you think External stakeholder communities‟ perception and expectations of oil industries affect the relationship?

4. How would you describe the current External stakeholder engagement practices of the oil industries?

5. Have there been any significant changes in the way oil industries relate and engage with community External stakeholder s in the last few years?

6. What do you think about the GMoU/MoUs oil and gas industries have with External stakeholder communities?

7. How has militancy influenced the relationship between oil industries and External stakeholder communities?

Appendix III: Interview schedule for oil companies

1. How do you identify your Stakeholders?

2. What is the role of different groups of stakeholders in your organization?

3. How does the organization identify its external stakeholders and who are involved in the process of choosing them?

4. What roles and tasks are there in your organization in terms of external stakeholder engagement?

5. What are the factors that influence external stakeholder engagement process in oil and gas industry?

6. How does politics influence external stakeholder engagement?

7. In your own views does the current Kenya oil exploration legal framework affect external Stakeholder engagement?

8. In what ways do the socio-economic factors of surrounding community affect external stakeholder engagement?

9. In your views does Kenya has enough technology ability to explore oil? Does it influence external stakeholder engagement?

10. Has your company had problems with some external stakeholders? If yes, what kind of? How have they affected your business?

11. What are your company's strengths in terms of external stakeholder engagement? Is there something that you company could do better in terms of external stakeholder engagement?

12. How do the existing policies on oil and gas extraction affect effective external stakeholder engagement?

13. Which new policies that can be formulated to influence stakeholder engagement in the extractive industries.

14. From your experience, what would you recommend to better enhance external stakeholder engagements in oil and gas industry?

Appendix IV: Interview schedule for the government officials

1. In your own views does the current Kenya oil exploration legal framework affect external Stakeholder engagement?

2. In what ways do the socio-economic factors of surrounding community affect external stakeholder engagement?

3. In your views does Kenya government has enough technology ability to explore oil? Does it influence external stakeholder engagement?

4. Has your company had problems with some external stakeholders? If yes, what kind of? How have they affected your business?

5. What are your company's strengths in terms of external stakeholder engagement? Is there something that you company could do better in terms of external stakeholder engagement?

6. How do the existing policies on oil and gas extraction affect effective external stakeholder engagement?

7. Which new policies that can be formulated to influence stakeholder engagement in the extractive industries.

8. From your experience, what would you recommend to better enhance external stakeholder engagements in oil and gas industry?

Thanks again for agreeing to take part.

Appendix V: upstream and oil gas regions in Kenya