AN EVALUATION OF THE EFFECTS OF DEREGULATION ON THE PETROLEUM SECTOR IN ZIMBABWE

A Research Report

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By

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Declaration

I ,**MUKAI MAHACHI**, do hereby declare that this research report is the result of my own investigation and research, except to the extent indicated in the acknowledgements ,references and by comments included in the body of the report, and that it has not been submitted in part, or in full, for any other degree to any other university.

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30.11.07

Date

EXECUTIVE SUMMARY

The purpose of this research paper is to examine the effects of deregulation on the petroleum sector in Zimbabwe. The sector was deregulated in order to encourage the participation of indigenous companies and to alleviate fuel supply constraints faced by industries such as manufacturing and transport. Deregulation occurred as a result of policy recommendations made by the International Monetary Fund in 1996 intended to create a more competitive environment and to reduce fiscal drain caused by fuel subsidies to the National Oil Company of Zimbabwe. The research was conducted in Zimbabwe on the nine indigenous oil companies recognised by statutory instrument No 301A/2001.

The research was conducted by administering a questionnaire to respondents from the selected sample and a response rate of fifty six percent was achieved. Two companies were excluded from the research due to the loss of their licences during the year. The questionnaire consisted of both open ended and close ended questions covering issues pertaining to the regulatory environment and the strategies of the oil companies. The responses collected were summarised and tabulated. The results revealed that although the respondents acknowledged that deregulation had benefited indigenous companies, the level of environmental dynamism in the sector required urgent attention. By rationalising the number of oil companies and through the Petroleum Regulatory Authority, Government can bring order and set operational standards in the sector.

The paper concluded that the competitive landscape has changed and both indigenous oil companies and multinational oil companies had the onerous task of crafting strategies that would enable them to survive the dynamic environment. Recommendations are made to Government on the need to bring order to the sector by implementing the provisions of the Petroleum Act through the Petroleum Regulatory Authority. Indigenous oil companies encouraged to create a united body to lobby for protective legislation and to develop strategies to become more competitive.

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'They know enough who know how to learn'
Henry Brooks Adam

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I dedicate this research to my late father, A.K Mahachi who believed in me and taught me to fly high.

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LIST OF ABBREVIATIONS

BOP	Balance of Payments
DFI	Direct Fuel Import
ESAP	Economic Structural Adjustment Programme
FOREX	Foreign Exchange
GDP	Gross Domestic Product
GWEP	Growth with Equity Plan
IMF	International Monetary Fund
IOC	Indigenous Oil Company
IPGZ	Indigenous Petroleum Group Zimbabwe
KSF	Key Success Factor
LPG	Liquefied Petroleum Gas
MEPD	Ministry of Energy and Power Development
MNOC	Multinational Oil Company
NERP	National Economic Recovery Plan
NOC	National Oil Company
NOCZIM	National Oil Company of Zimbabwe
OC	Oil company
OPEC	Oil Producing and Exporting Countries
PMAZ	Petroleum Marketers Association of Zimbabwe
PMZ	Petroleum Marketers of Zimbabwe
PRAZ	Petroleum Regulatory Authority of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
SADCC	Southern African Development Community Centre
SI	Statutory Instrument
US	United States of America
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZOPCO	Zimbabwe Oil Procurement Consortium
ZWD	Zimbabwe Dollar

1. ORIENTATION

1.1 Introduction

Deregulation occurred as a direct consequence of the Economic Structural Adjustment Programme (ESAP) launched in 1991 whose objective was to encourage domestic deregulation of industry and to promote investment. Deregulation should create sustainable opportunities not only for incumbent companies in a sector, but also for the new companies that are formed to exploit opportunities that arise as a result of changes in the environment. It is against this background that this research has been conducted in order to determine how deregulation has affected the petroleum sector, particularly the indigenous oil companies.

This chapter examines the political and economic policies in Zimbabwe from independence and analyses them to ascertain their impact on the development of fuel policies. The role of NOCZIM over the years and the regulatory environment are also discussed.

1.1.2 Zimbabwe's Political & Economic Background

According to Jenkins (1997), the history of a country matters if one intends to fully comprehend issues confronting that country. Jenkins's argument is that the decisions taken in the past eliminate options available to incumbent leaders because of inherited structures, institutions, ideologies and values. In taking cognisance of this, it is necessary to examine the political and economic background of Zimbabwe and determine how it has affected subsequent policies. After attaining independence in 1980, the new government had the onerous task of redistributing the wealth of the country and creating equal opportunities in all sectors of the economy for the previously disadvantaged sections of society (Jenkins, 1997).

To achieve its goal of equitable distribution of wealth, the Government has embarked on various Economic Development Plans over the past twenty seven years. The first economic plan was the Growth With Equity Plan of 1981

(GWEP) and its focus was on equitable economic growth. Amongst GWEP objectives was the substitution of imported petroleum through domestic production of blended fuel. The Government intended to expand the production of ethanol which was used to produce blended fuel as well as to explore the beneficiation of locally produced coal into methanol, gas and oil (Zimbabwe. Government Printers,1981). The key challenge confronting Government's energy policy was the absence of any known petroleum reserves in the country resulting in continued reliance on imported fuel. Petroleum imports accounted for 14% of primary energy imports and these were complemented by the production of 40 million litres of blended petrol (Zimbabwe. Government Printers, 1982 & 1983).

During the first four years of independence 1980 to 1984, the economy grew by 21% (Riddell, 1984). This has been attributed to the fact that the economy had previously been closed due to sanctions and the resumption of normal trade activities boosted production and consumption ratios. The high growth rates were countered by the drought in 1982/3 which resulted in the government having to import huge amounts of grain. The government was also forced to reduce foreign exchange allocations resulting in crippling shortages of commodities including fuel which subsequently began to be rationed. The social transformation programmes in education, health and even housing forced the Government to borrow to finance the budget deficit and this deficit has grown over the past 20 years from 6.7% in 1981/1982 to 43% in 2006 (Economic Intelligence Unit,2007).

Although the government intended to increase the ethanol composition of petrol blend to 25 % ethanol, it was unable to do so due to water constraints at the sugar cane plantations. In September 1980, blended petrol reduced fuel mports by over 20%. A technical challenge that was faced was that engine odifications were required before vehicles could use the blended petrol and sequently the Government abandoned the blending of fuel in favour of rting refined products. (Zimbabwe.1982,Vol.1 &2, Government Printers).

The Government was forced into adopting an Economic Structural Adjustment Programme (ESAP) in 1991 by the International Monetary Fund (IMF) through the withholding of Balance of Payment Support which the Government critically needed (Jenkins, 1997). ESAP saw the abolition of the foreign exchange allocation system from which many companies obtained foreign currency for import requirements. Among the key objectives of ESAP was the phasing out of statutory monopolies that existed and the commercialisation of those state entities that were responsible for fiscal drain by their failure to operate profitably. Despite these objectives, Government, maintained a 100% shareholding in NOCZIM and has continued to provide funding to the company despite its record of financial mismanagement (Zimbabwe.1991, Government Printers).

In a review of the successes of ESAP, the IMF/ World Bank relented on some of the objectives by conceding that Zimbabwe was not yet ready to fully liberalise. Subsidies were necessary to avert poverty in the health and education sectors. Some sectors of industry (e.g. paper and clothing) lobbied the government for the reintroduction of protective tariffs as they were losing market share to imported products. Domestic industry would be forced to de-industrialise if tariff protection was not granted (Bond 1996). The successor to ESAP, Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) ran from 1996 to 2000, and did not usher in any policy changes for the petroleum sector.

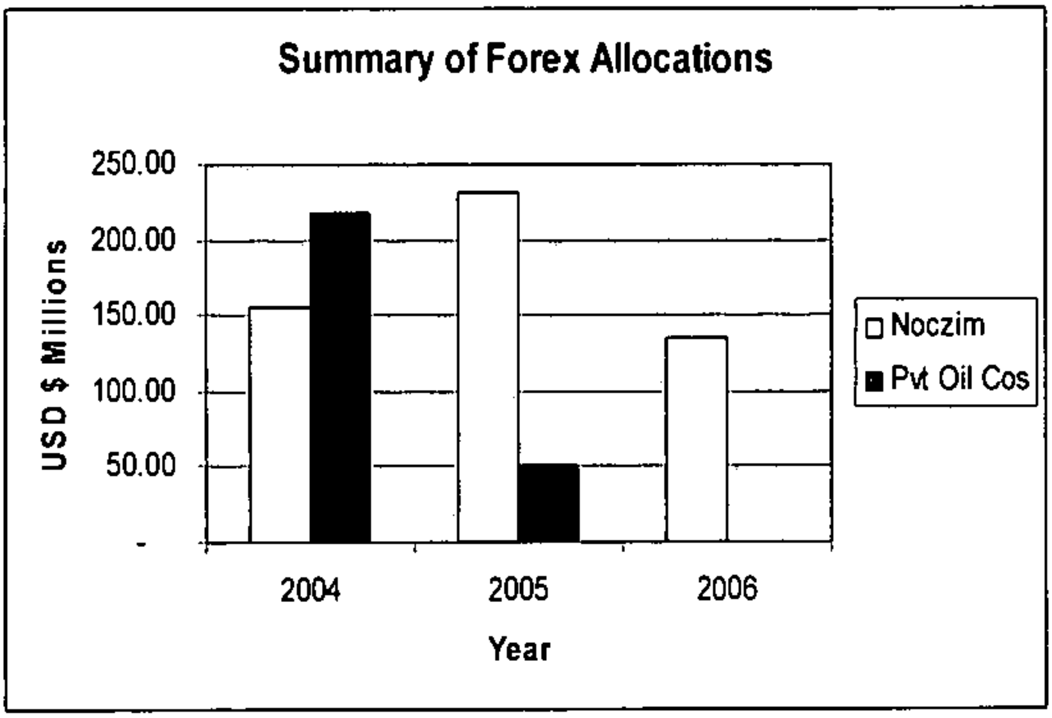
It was only through the National Economic Revival Programme (NERP) launched in 2003 that the Government took measures to alleviate the crises besetting the petroleum sector. The government had maintained consistent fuel prices from 2001 to 2003 despite rising international oil prices and the fixed margins charged were being eroded by inflation rendering the sector unprofitable. Government maintained a policy of keeping diesel prices lower than petrol with the objective of keeping costs lower for the transport and commercial sector through cross subsidisation. A fuel pricing model trigger mechanism was also adopted in order to determine fuel prices. This policy document breathed life into the petroleum sector by allowing oil companies to import their own petroleum products. (Zimbabwe. Government Printers, 2003).

1.1.3 Current Economic Situation

The Zimbabwean economy has continued to contract with estimated negative growth rates of -4.4% achieved in 2006. Inflation rates rose from 134.5% in 2002 to 7 634.8% in August 2007. The declining performance of the economy poses serious challenges for the fuel sector as Fuel imports accounted for 30% of principal imports in 2004 (Economic Intelligence Unit, 2007).The prevailing exchange control regimes play a pivotal role in the petroleum sector. Zimbabwe's exchange control regime has shifted from the exchange allocation system of the early 1980s to a semi-liberalised regime in the 2000s.

Exchange control policies are determined by the Reserve Bank of Zimbabwe (RBZ) and are subject to frequent changes in line with economic policies. Following the deregulation of the petroleum sector, fuel companies continued to access foreign exchange (forex) from commercial banks. In 2004, a forex auction system was launched with oil companies submitting bids for currency through their banks. Success was dependent on the bid price and the amount available for auction (RBZ Fuel statistics, 2006).Figure 1.1 shows the pattern of forex allocations for the three year period from 2004 to 2006. In 2004, private oil companies received 58% of the allocated amount and this percentage whittled down to 18% in 2005.

Figure 1-1



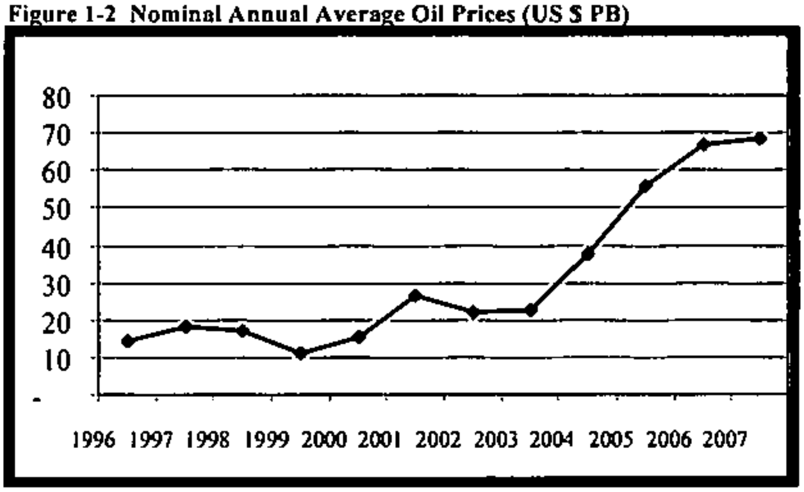
*Reserve Bank Fuel Statistics 2006

In 2006, the RBZ ceased the allocations leaving private oil companies to source their own forex for importations. The available forex was channelled to NOCZIM which is mandated with the importation of fuel for the critical sectors of the economy such as Government departments, quasi Government institutions, public transporters and farmers.

The economic meltdown in the country prevented the RBZ from accessing its normal credit lines to fund fuel importations. Traditional balance of payment (BOP) support was gradually stopped in protest to the political and economic policies. The International Monetary Fund stopped BOP support in 1999 with the World Bank following suit in 2001. This forced the RBZ to pay upfront for fuel supplies as it could no longer utilise credit lines for fuel importations. The payment of cash upfront meant that the Bank was constrained with regards to choice of suppliers and resorted to purchasing fuel at higher than average prices.

In addition to the economic problems above, events on the International Oil Markets posed a further challenge to the country. The barrel price of fuel increased from an average of US$10 per barrel in 1996 to US$68 in 2007(Fig 1.2 below). Although there was an increase in demand for fuel; the country did not have the capacity to meet demand.

Figure 1-2 Nominal Annual Average Oil Prices (US $ PB)



Source: CBZ Bank Economic Review Prospects August 2007

Twenty five percent of Gross Domestic Product is absorbed by fuel importations alone and when the economy is operating at full capacity, 900 million litres of diesel (gas oil) and 730 million litres of petrol (gasoline) are required annually. (Ministry of Energy, 2001).

1.1.4 Pre and Post Independence Fuel Policies

Prior to independence, the fuel sector was driven by the five multinational oil companies namely BP, Shell, Mobil, Total and Caltex through a purchasing agency, GENTA, established in 1966. Government intervention in the sector was limited to ensuring that municipal by-laws were adhered to, with oil companies determining issues pertaining to standards and pricing. Participation in the sector was viewed as an investment and the Government was grateful to the oil companies for continuing to avail fuel supplies to the government in spite of sanctions (Jardim, 1979).

Petrol prices rose during this period from ZW$0.69 per litre to ZW$0.975 whilst diesel prices rose from ZW$0.342 per litre to ZW$0.517 and these increases compounded the fuel situation. The multinationals formed the Zimbabwe Oil Procurement Consortium (ZOPCO) to rationalise procurement and distribution of fuels. ZOPCO operated from 1980 until 1983 when the new majority government, which had grown dissatisfied with the consortium's performance during the crises, formed NOCZIM (Mashange,2002),

1.1.5 Role of the National Oil Company Of Zimbabwe

National Oil Companies (NOCs) are critical members of any energy sector throughout the world. NOCs are created by governments in order to right the wrongs that may be perpetrated on members of society by business through the creation of a level playing field. They ensure that fuel is distributed to areas that may be overlooked or are unattractive to business (Morse, 2005).

In fulfilment of the above, the Government made a strategic decision to control the procurement and distribution of petroleum by taking over the functions of ZOPCO through the formation of NOCZIM in 1983. This restricted the five major Oil Companies to the marketing and distribution of fuel only. The Government holds a 100% shareholding in NOCZIM through the Ministry of Energy and Power Development.

In creating NOCZIM, the Government hoped to achieve the following objectives (Ministry of Transport, 1994)

a) establish a coherent procurement policy that would enable the economy to reap the advantages of economies of scale
b) ensure storage of national fuel reserves and to equitably distribute them to the oil companies
c) advise the government on this strategic industry and on the international oil industry
d) engage in petroleum projects of national importance
e) enhance local participation in the petroleum sector

During the 1990's, NOCZIM assumed the role of sole procurer and regulator of all participants in the industry. NOCZIM was responsible for bulk procurement of petroleum products and all the oil companies would then purchase product from NOCZIM. This position changed in 2000 when the sector was opened up through the licensing of indigenous oil companies. NOCZIM has been dodged by allegations of financial impropriety and mismanagement over its life and this has affected its ability to achieve the above objectives. A major challenge facing NOCZIM is its inability to set market related prices for products as this is often in conflict with Government policies. All price increases for fuel require Cabinet approval and frequently, approval is either denied or delayed, forcing NOCZIM to sell product at sub-economic prices. Although a debt redemption levy is levied on every litre of fuel imported into the country, the amounts collected have proved insufficient to retire its debt (Mashange,2002).

1.1.6 Regulatory Environment

The petroleum sector is regulated by the Government through the Ministry of Energy and Power Development (MEPD). The Ministry's strategic objectives are: (Zimbabwe .Ministry of Energy,1994).

- To develop a legal framework to facilitate orderly operation of the oil industry
- Ensure adequate supplies of petroleum products to facilitate economic turnaround and sustainable economic development
- Develop and implement policies to promote indigenisation in the petroleum sector

The enactment of the Petroleum Act in 2006 is in fulfilment of the first objective as it has created a legal instrument through which the operations of companies in the sector can be regulated as the sector hereto did not have any legislative guidelines. The deregulation of the sector in 2000 fulfilled the third objective and ushered in indigenous oil companies as significant participants in this sector. The number of oil companies rose from just five multinational firms to a total of fourteen in December 2003.

Prior to the enactment of the Petroleum Act, regulation of the sector had been mainly through the issue of Statutory Instruments (SI's). The SI's were used as a pricing instrument and were initially targeted at NOCZIM. Their jurisdiction has over the years been extended to regulate the activities of all the other oil companies and have a bearing on their strategies.

In June 2007, a National Incomes and Pricing Commission was created through SI 159A (2007) in order to bring price stability in all sectors of the economy. This has presented strategic challenges to OCs as the sector has reverted to the scenario prior to 2003 where NOCZIM was the sole importer of fuels. OCs are now forced to disregard their own supply arrangements and to channel all their forex for importations to NOCZIM. Although uniformity in the cost of product may come as a result of this move, this move disadvantages OCs that were able to negotiate lower international prices of fuel as they are now forced to purchase fuel at the NOCZIM prices.

Although the sector was deregulated in 2000, the legal instrument to regulate the sector was only enacted in 2006. The absence of a legal instrument means that a sector has to self regulate and more often than not, this poses problems for the sector as it can create cartels ultimately excluding the smaller players. The Petroleum Act 13.22 (2006) establishes the Petroleum Regulatory Authority of Zimbabwe (PRAZ) whose mandate will be to ensure that sufficient fuel is provided for use in the domestic market and that international standards are adhered to in the procurement, sale and production of petroleum products. PRAZ will also carry out the regulatory function of the sector and will encourage competition amongst oil companies not only in pricing, but through service standards. Only registered companies are allowed to participate in the procurement and distribution of petroleum products. (Zimbabwe. Petroleum Act 13.22)

The Petroleum Bill still to become operational due to the delay in appointing Commissioners to PRAZ. This has resulted in the industry continuing to self regulate with NOCZIM occasionally stepping in to fill the vacuum. As of November 2007, no statutory instruments have been passed to operationalise the Act.

1.1.7 The case for deregulation

In the preceding sections of this report, background to the economic and political situation in the country from independence to the current period has been given together with the various policies that have been adopted in the fuel sector over the past years. The narrative above is necessary in order to fully comprehend the circumstances that gave an impetus to the Government to deregulate. In summary, the decision to deregulate was a culmination of the following factors (Indigenous Petroleum Group Zimbabwe,2003):

- The Land invasions in 2000 severely affected the country's economy as it is predominately agro based. The majority of agro goods produced in the country are exported earning the country much needed forex for imports and this trend continues to date with at least 31% of forex earned in 2006 coming from agro related exports (RBZ Monetary Statement September, 2007). The Government was unable to satisfy fuel import requirements from its own resources and turned to the unofficial (parallel) market to obtain money for fuel imports.

- The unavailability of foreign denominated currency through the official channels resulted in a bustling parallel market for foreign currency (also termed the black market) as both companies and the Government obtained currency from this market. The high demand for foreign currency and rampant speculation by traders on the strength of the Zimbabwean dollar resulted in the continual decline of the Zimbabwean dollar on the parallel market.

- NOCZIM's sub economic pricing policies were in tangent to the increasing world oil producer prices. Government subsidisation of fuel prices continued to be a drain on the fiscus. Furthermore, the multinational companies were not participating in the sourcing of currency for fuel but were reliant on NOCZIM for all their supplies. This meant that NOCZIM was actually subsidising these companies as it would source currency on the parallel market, import product and sell to the MNOCs who in turn would sell the product at a profit and remit the profits earned in hard currency to their foreign principals.

- Instead of benefiting from the presence of these multinationals in the country, the Government was actually digging a hole for itself by not allowing them to import fuel. The local multinational oil companies are all subsidiaries of international oil companies that are involved in upstream activities that involve the exploration, mining and refining of petroleum. The presence of these companies in the downstream activities presented opportunities for their local subsidiaries to obtain product at competitive prices ultimately benefiting the consumers through the economies of scale achieved.

- The policy of adopting a fixed exchange rate in calculating the price of fuel created opportunities for arbitrage in the sector as the prices for fuel within the SADC region alone ranged from US$0.39 to US$0.70 per litre. When the price of fuel was converted into US$ at the parallel rates, Zimbabwean fuel was cheaper than that of other countries in the region such as Zambia where fuel retailed at almost the equivalent of US$1. This provided arbitrage opportunities for transporters of commodities whose routes took them through Zimbabwe to refuel their trucks locally thus exploiting the cheap fuel available to the detriment of the local people. In essence, although Zimbabwe was in the throes of a fuel crisis, it was subsidising the fuel costs of regional transporters.

- By directly controlling the industry through NOCZIM, the Government was essentially duplicating the responsibilities of the oil sector who were the experts in the field. The OCs had developed both the infrastructure and expertise to handle both bulk and retail fuels by developing sound distribution channels and through an investment in training of staff.

- Fuel shortages forced many fuel reliant industries to scale down or close operations resulting in retrenchments in industry. Losses in various sectors attributable to fuel shortages were estimated to be approximately US $236 000 for each mining company per week (Mashange,2002).

- Fuel shortages also forced the companies in the oil sector to scale down operations as they could no longer continue supplying fuel to all their affiliated service stations. MNOCs sold off assets such as retail outlets and depots to other players in the sector. There was also a reduction in the levels of employment within the sector as retail outlets reduced their operating hours and retrenched staff. Ordinarily, some stations had operated for 24 hours a day but without consistent supplies of fuel, the hours were reduced to a mere eight hours a day ,and the number of shifts reduced from two or three to a mere one shift a day.

1.2. Research Objective

This research examines the process of deregulation in the petroleum sector and assesses its impact on indigenous oil companies. The purpose of this assessment is to ascertain whether the intentions of the regulator have been fulfilled in the sector and to discuss the strategies that the indigenous oil companies can implement in order to become more competitive against the major oil companies.

1.3 Research Questions

The researcher will conduct research to establish what effects deregulation has had on indigenous oil companies (IOCs). This research report will answer the following questions:

1. What are the intended benefits of deregulation and to what extent have they been achieved?
2. What competitive strategies have emerged from deregulation?
3. What should the indigenous oil companies do to become more competitive?
4. What is the sector's capacity to survive the economic and political challenges confronting Zimbabwe?

1.4 Definitions

For the purpose of this research, the researcher will use the following definitions in relation to the following terms:

Deregulation – The process of removing legal barriers from a sector of the economy that impede participation.

Indigenous Oil Company – A company formed after 2000 with a majority shareholding of 51 % held by indigenous Zimbabweans. The company must have an Oil Company licence, storage facilities and operate at least five retail outlets.

Multinational Oil Company – An Oil company existing prior to 2000 whose major shareholders are International Oil Companies with global interests.

Petroleum Products – Petrol, diesel, aviation gas, illuminating paraffin, liquefied petroleum gas (LPG) and related products.

1.5 Delimitation of the Study

The research paper is confined to the petroleum sector in Zimbabwe although the researcher draws on the deregulatory experiences of other countries throughout the world in order to benchmark the sector. The focus on Zimbabwe is deliberate as the researcher is resident there and has worked in the sector for the past seven years. Though occasionally discussing the strategies of major oil companies, the paper focuses on the indigenous oil companies that emerged in Zimbabwe as a direct offshoot of deregulation. The research focus on indigenous oil companies was deliberate because deregulation altered the competitive landscape and focus should no longer be only on major oil companies.

1.6 Importance of the Study

The petroleum sector is a major generator of revenue in oil producing countries and its availability in non producing countries, fuel drives economic activity. Control of the sector has resulted in many political conflicts throughout the world. The supply of oil has also been used as a political tool to force out unwanted governments through the imposition of sanctions (Jardim, 1979). Most countries in the world are net importers of petroleum products and this makes it critical for each and every country to understand how the sector functions. Although the petroleum sector is crucial to the smooth functioning of the economy, the researcher struggled to find relevant literature to review. It seems there is a chasm in the production of scholarly literature on this sector in Zimbabwe as the researcher could not find any documented empirical studies even at the relevant Ministry. By conducting this research, the researcher hopes to contribute immensely to the body of knowledge on the subject.

In addition to this, the researcher believes that it is necessary to create a body of literature on deregulations in Africa particularly sub-Saharan Africa. The economic climate is totally different from the climate in the United States or in Europe where deregulations have occurred in various forms due to the economic status of African countries. Deregulations in Africa have occurred as a forced prescription from International Finance Organisations such the World Bank and International Monetary Fund (Bond, 1996).

The researcher also took into consideration the Indigenisation Act promulgated by the Government to promote the Economic Advancement of previously disadvantaged groups. The Government hopes that through the creation of a level playing field, previously disadvantaged groups will be encouraged to participation in all sectors of the economy. Deregulation has occurred in other sectors such as the Financial Sector in Zimbabwe and this gave birth to financial institutions which, though wholly owned by indigenous Zimbabweans, have altered the competitive landscape within the banking sector. By conducting this research, the researcher hopes to provide a barometer by which to measure the success of indigenisation in the petroleum sector. The challenges and successes of IOCs within this sector is a harbinger of the successes and challenges to come in other sectors. The mistakes made and the lessons learnt in this sector can help indigenous companies in other sectors as they seek to embrace the opportunities created by deregulation.

1.7 Research Report Outline

The research report is divided into the following chapters and a brief description of the chapter contents follows:

Chapter 2 – Foundation of the Study

Chapter two presents the theoretical considerations of the study and examines various theories on strategy that have a bearing on the research problem above.

Chapter 3 – Literature Review

In this chapter, a review of literature concerning the research problem is conducted and the importance of this study in relation to other researches conducted is highlighted.

Chapter 4 – Research Methodology

This chapter presents an overview of relevant research methodologies before selecting the appropriate methodology for this research. The chapter outlines how the research sample was selected in relation to the population and discusses the selection of measuring instruments. The methods selected for data analysis are also given in this chapter.

Chapter 5 – Results and discussion

In this chapter, a discussion of the research findings is conducted and related to the theoretical considerations in Chapter Two and the Literature review in Chapter Three.

Chapter 6 – Conclusion and Recommendations

The research is concluded in this chapter with recommendations being made to both the indigenous oil companies and government on how to enhance the viability of the sector.

2. FOUNDATION OF THE STUDY

2.1 Introduction

In order for any company to fully exploit opportunities that arise, it is necessary for it to clearly define its strategy. This section examines strategic principles in order to see how the indigenous oil companies (IOCs) can develop strategies that will sustain them in the industry. Unlike the MOCs, who have the benefit of the resources of their parent companies, IOCs are dependent on the capabilities they build within the sector hence the need to fully understand strategic issues.

2.2 Theoretical Considerations

Strategy is the selection of which customers to serve, what products to offer and which activities to perform (Markides,1999). It is the definition of the configuration of activities and how they relate to each other (Porter, 1991). It can also be simply described as the choices made by a company about how and where it competes to create a competitive advantage. Companies face problems with defining their purpose and the actions that the company should take in order to survive. It is the responsibility of the managers to see how the company can create more value than its competitors. The creation of value entails understanding what each of the company's major stakeholders consider to be value.

The Government is a key stakeholder in every company and it yields coercive power. The power of Government as a stakeholder can be seen in the enactment of laws and the coercion used to ensure adherence to the laws. Laws have the potential to either create a conducive or hostile environment for business. The deregulation of the petroleum sector is an example of how the Government alters the competitive environment. The ushering in of new players in the industry created serious competition for the incumbents as the IOCs had the support of Government and policies were enacted in their favour. The Government affects the company's environment through its competition policies and its role in related and supporting industries. Government plays an indirect role as both a catalyst and challenger of change within an industry; it is the role of Government to create an environment that sustains investment in a sector and allows companies to develop appropriate products and processes (Porter, 1991). Strategy allows the evaluation of an industry in order to understand the type of competition that prevails within it (Porter, 1979, Shapiro, 1989).

The success of the firm is a function of industry attractiveness and the company's position within that industry. Industry attractiveness can be gauged by conducting an industry structure analysis to establish why a company can be more profitable than another. This analysis can take the form of segmenting the industry according to the various companies within it. In the Petroleum sector, companies can be placed into strategic groups according to the type of upstream or downstream activities that they carry out. It would not be wise to place MNOCs who have access to the upstream activities of their parent companies and hence, the ability to acquire fuels at prices that are significantly lower than those available to the IOCs in the same strategic group .This places the MNOCs at an advantage over the IOCs hence this fundamental difference would need to be addressed in the crafting of IOCs strategy.

Differentiation creates value for customers and a company can only create a competitive advantage by performing its internal activities uniquely to create value. Value chain analysis examines how activities within the company are configured and determines the costs incurred in pursuing a differentiation strategy. Core competencies can reside in a range of functions within the value chain and represent how a company organises its tasks and creates value.

The roots of establishing competitive advantage lie in a company's core competences. Price and performance may make a company attractive in the short term but sustainable competitiveness is derived from core competencies that allow the company to rapidly exploit opportunities as they occur. The architecture of an organisation is essential in building core competencies as only the right structure ensures that the strategic vision filters through the organisation and is implemented throughout the company (Prahalad & Hamel, 2001).

Ghoshal and Lovas (1990) refer to strategic intent as the long term goals of the company as they are articulated by its top management. It is influenced by the competitive fitness of the company, its strategic processes, and top management conception of the external environment and their view of its resources. A firm's strategy evolves from the decisions made by a firm daily and firms that are able to exploit their existing human and social capital perform better in the long run than their counterparts who are unable to do this. The evolution of strategy is a result of the competition and confrontation that a company encounters. The creativity of the managers of the firm determines how successful a strategy is. New strategies emerge as a result of the experiences a firm encounters when dealing with other firms whilst some strategies are merely old strategies being reworked in order to conform to the changing environment (Mintzberg & Lampel 1999).

Continuous morphing (Rindova & Koth, 2001) refers to the several transformations a company goes through in an attempt to adjust to the environment. Morphing goes beyond merely changing the structure of a company but encompasses the reconfiguration of resources and capabilities to deliver more value to customers. Some companies find it difficult to adjust to their environment due to a lack of organisational capacity to develop new competences quickly or due to unavailability of resources to acquire new competences.

Whilst companies are affected by changes in their external environment, reasons for competitive decline (Hamel and Prahalad, 2000) can not be only apportioned to outside factors alone. Managers of companies should be held responsible for inability to maximise use of firm resources. The first step in Grant's (1991) resource based approach to strategy analysis involves the identification and classification of a firm's resources. Resources are classified into six main categories: financial, physical, human, technological, reputation and organisational. Resources consist of both tangible and intangible resources as the valuation of the firm often takes into account the intangible assets such as firm reputation and brand reputation.

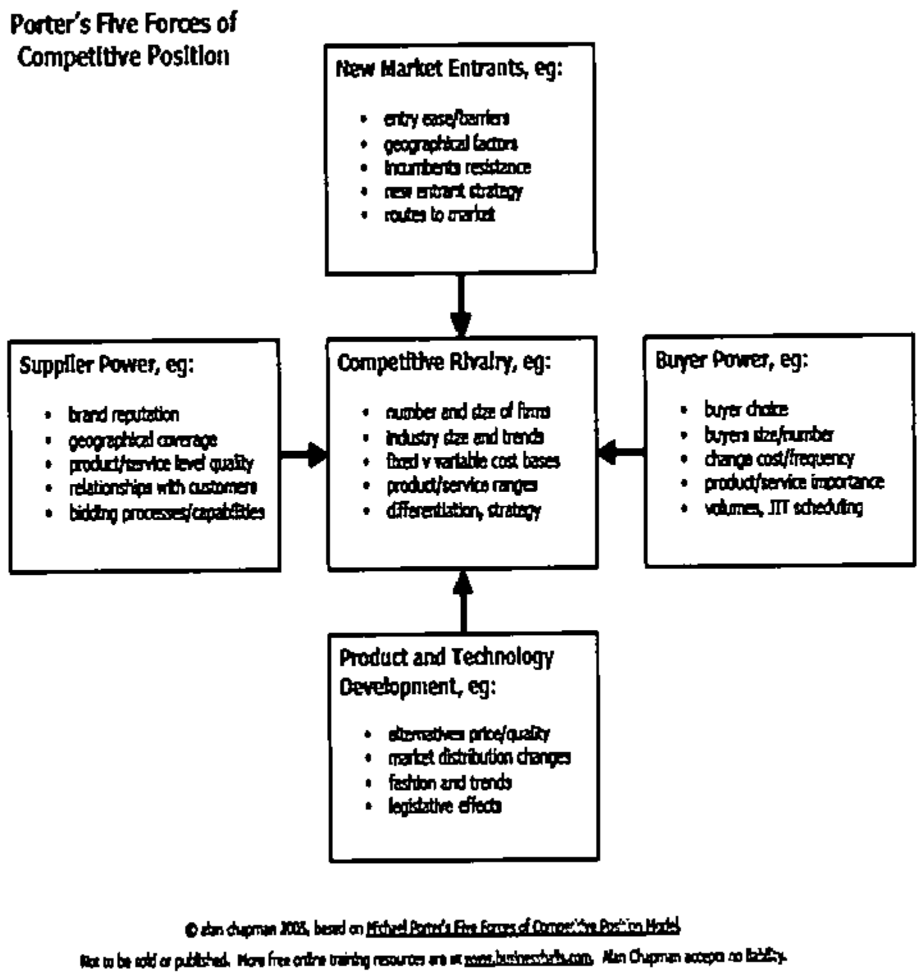
The second step involves identifying and appraising capabilities. Capabilities are also defined as core competencies (Hamel & Prahalad) or distinctive competencies and these are a result of the utilisation of a firm's resources. Competitive advantage is derived from maximum utilisation of a firm's capabilities and these capabilities should be assessed relative to those of competitors in order to ascertain their value. The availability of resources can constrain the development of a firm's capabilities as they affect the quality of output from the firm. Firm profitability is derived from the sustainability of its competitive advantage and its ability to profit from its resources and capabilities. The firm should select a strategy that exploits its resources and capabilities best in relation to opportunities that are available outside. If the firm has any resource deficiencies, these should be identified and an investment made into augmenting its resource base.

Although the resource management process is a dynamic one, a firm must have resources for it to develop into capabilities. Sirmon, Hitt and Ireland (2007) argue that it is only through the synchronisation of each component of resource management that value can be created for all stakeholders.

2.3 Porters Five forces Analysis

In order for a company to fully exploit the opportunities that are presented to it, the company must have a clear understanding of how it is affected by the environment in which it operates. The five forces of competition (Porter, 1979) show how the competitive forces within an industry shape strategy. Porter's five forces create a framework for determining industry structure and can be used at industry level, strategic group level or at firm level. Opportunity for success is only created when the combined effect of the forces is weak or when the company crafts a strategy that creates a position within the industry from which the company can create opportunities and make the forces work in its favour.

Figure 2.1 Porter's Five Forces



The Economic and Political situation in Zimbabwe as outlined in the first chapter of this research has had a profound effect on the petroleum sector. The five forces of competition are used here to examine the varying effects on incumbents.

	FORCE	STRENGTH
1.	**Threat of entry**	**High**

- The petroleum sector has low barriers to entry. There is no defined criteria for registration as an oil company. The persistent shortages have culminated in Government Policy appeasing consumers of high volumes of product through the issue of DFI licences and over 174 companies and individuals have obtained this licence.
- Though economies of scale are a strategic advantage in the sector, they do not work in favour of the IOCs as competitors can enter at any level by purchasing DFI coupons and reselling them in denominations that are as small as fifty litres.
- There is no differentiation in the products sold and customers will go wherever product is found. Though some local brands have been developed over the past six years e.g. Wedzera, Comoil, Exor and Country Petroleum, this has not deterred the entrance of other unknowns into the industry
- Low capital requirements except in retailing where significant investment is required to establish an outlet.
- Access to distribution channels depends on the financial position of the entrant as facility sharing agreements are in place throughout the industry. Pipeline usage, tanker hire, depot storage and even retail space can be purchased from other players in the industry.
- Government policy in the sector has been virtually one of allowing as many participants as possible in order to alleviate perennial fuel shortages.

2.	**Bargaining power of customers**	Low

- Customers have low bargaining power due to the fuel shortages in Zimbabwe and the lack of consistency in supplies.

- The only defence mechanism customers have against the IOCs is to acquire their own DFI licences and purchase fuel direct from suppliers thereby eliminating the need for OCs.

3. **Bargaining Power of Suppliers** **High**

- Suppliers currently have very high bargaining power following the collapse or cancellation of many bi lateral trade agreements. This has left the industry at the mercy of fuel suppliers who charge premiums that are way above the regional averages. The failure of Zimbabwe to procure bulk fuel has also eliminated economies of scale in logistics. According to Mashange,2002) (2001) Zimbabwe's basic product cost was US45.34c per litre compared to prices of US25.5c in Botswana, US21.43c in Mozambique and US21.77c in South Africa. Regional prices range from US21.43c to US45.34c with Zambia at US41.40c being the second most expensive after Zimbabwe. Fuel suppliers are wary of sending fuel to Zimbabwe without receiving fuel payment upfront and this further compromises the country's ability to obtain reasonably priced fuel.

4. **Substitute Products** **Low**

- Although research has been conducted into developing hybrid cars that are powered by alternative sources of energy, this threat is not imminent in Zimbabwe. The Government has embarked on a bio-diesel project using the oils from Jatropha seeds and is currently running an experimental vehicle on this fuel. Lack of resources have hampered full scale production of the bio-diesel hence the threat of fuel oils being substituted by renewable sources is negligible. This means that fuel companies have to create sustainable strategies in order to compete against each other and gain market share.
-

5. **Jockeying amongst incumbents** **Medium**

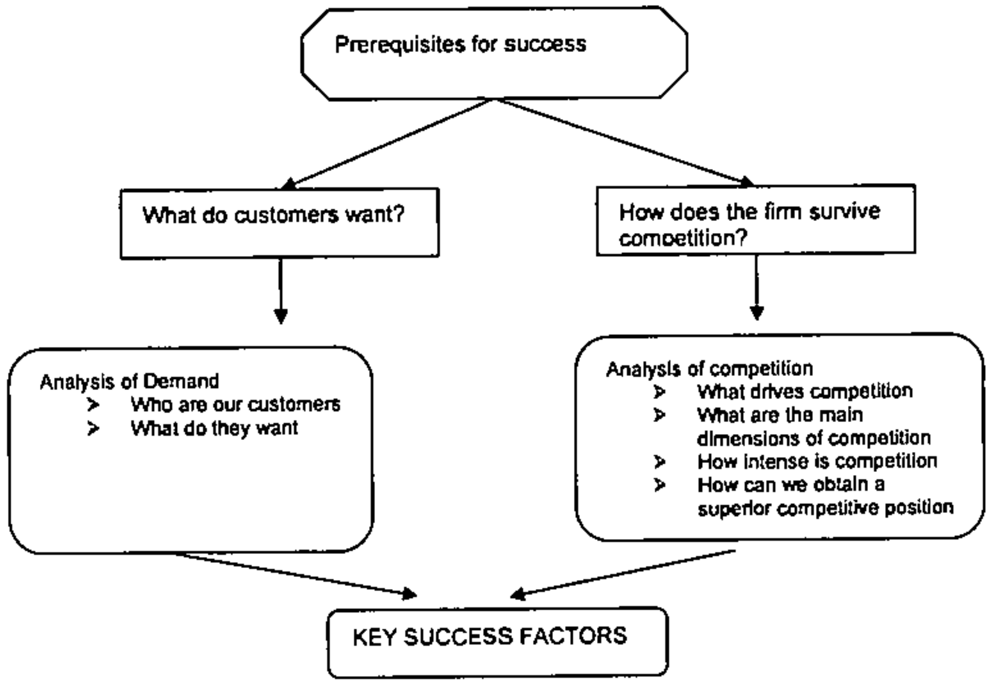
- Jockeying amongst participants in the fuel sector is not intense due to erratic supply. Demand far exceeds supply and each IOC has its own niche clientele who rely on it for supply. Competition is merely price focused and is very short lived as companies face challenges in maintaining consistent supplies.
- The high fixed costs force players to narrow their margins in order to increase revenues to cover fixed costs as volumes traded are constricted.
- There is also abundant excess capacity therefore reducing the investment returns in the sector. IOCs do not have adequate supplies to distribute to all their outlets nationally and this has resulted in product concentration in only the urban areas.

An evaluation Porters 5 forces is critical in the creation of diversification strategies for the oil companies thus broadening income generating streams. Shapiro (1989) likens strategy to evolution-companies have to adapt to their environment to survive; eat or be eaten. The alignment of business strategy to industry analysis techniques is necessary in the analysis of industries or in predicting behaviour that is applicable to all industries. He supports industry analysis techniques and advocates for their use in understanding competition within industry, predict future performance and determine external influences on the industry.

2.4 Key Success Factors

In addition to conducting the five forces analysis above, companies should also determine the key success factors (KSFs) for their industry. Grant (2005:99) describes KSFs as those variables that management can influence through its decisions and that can affect significantly the overall competitive positions of firms within an industry. Identifying KSFs involves determining customer needs and what the company should do to survive competition.

Figure 2.2 Framework for identifying KSFs*



*Adapted from Grant (2005)

The framework above can be applied to the petroleum sector in order to determine the types of capabilities that oil companies must develop in order to become more competitive. Examples of these KSFs include:

- ✓ Distribution capabilities

  Oil companies must have a wide distribution channel in order to reach as many potential customers as possible. The industry is volume driven and the more volume pushed, the more profitable the company becomes. Distribution capabilities include a wide network of retail outlets and also the distribution channels that are efficient.

- ✓ Storage facilities

  Companies should have adequate storage facilities in order to keep buffer stocks and avoid stock outs. The Government currently does not hold any significant strategic reserves making it essential for oil companies to build their own reserves.

✓ Procurement capabilities

The ability to negotiate and obtain fuel supplies at the best possible cost is a clear advantage in the sector as it enables the company to have pricing flexibility. It is in this area that MNOCs currently have an edge over IOCs as they can obtain supplies at far more favourable prices than the local companies.

✓ Operational Flexibility

In dynamic environments, flexibility is crucial for the survival of the firm. It is in this respect that IOCs have an advantage over MNOCs at the moment. The ever changing regulatory environment requires companies to be very flexible in the execution of their strategy and to adapt their strategies as necessary when the environment has changed. Operational rigidity may cause a company to become redundant as it fails to keep up with the fast paced evolution of its industry.

The above identification of KSFs is important for IOCs if they are to establish themselves as a long term threat to the operations of the MNOCs. Whilst the environment at the moment is chaotic in the sector, the IOCs need to develop strategies for the future when normalcy returns to the country.

2.5 Environmental Dynamism

Environmental Dynamism refers to the degree of turbulence in products, technology and demand in a market (Ward and Duray, 2000) and dynamic environments are characterised by unpredictable and rapid change which increases uncertainty (Ensley, Pearce and Hmieleski ,2006) making it difficult for managers to make strategic decisions (Rosenbusch, Bausch and Galander, 2007) .

The environment in Zimbabwe can be viewed as a dynamic environment due to the volatility in the economic and regulatory environment. In dynamic environments, strategies are valid for limited time periods due to the incessant changes to the environment. Jenkins (2005) defines a dynamic environment as chaotic due to the ever changing market equilibrium which makes it difficult for companies to predict the future and plan accordingly.

Environmental changes affect the size of the target market of the company as changes like deregulation can usher in new competitors to previously semi monopolised sectors. Firms in dynamic environments pursue more innovative strategies than their counterparts in stable environments (Miller, 1987) and dynamism affects the growth opportunities, rate of innovation in industry products, services and processes. Other challenges facing the firm include hostility from competitors and legal, political and economic constraints.

Strategy formulation should be regarded as a process of continuous learning. The best strategic decisions are those that are made within the company and in companies with business units, these decisions should be made as closely as possible to the environments in which the business units operate (Feurer, Charharbaghi and Distel 1995). The dynamism of the environment poses problems for multinational companies particularly if decision making is not decentralised. Although the MNOCs operating in Zimbabwe are the offshoots of International companies, Feurer et al recommend that strategic decisions are crafted in Zimbabwe rather than, for example ,in the United Kingdom for BP Zimbabwe. Rosenbach et al argue that because small firms are different from large corporations, they suffer from a liability of smallness which affects their ability to raise resources for growth and expansion strategies but their size affords them the opportunity to be more flexible in dynamic environments. In crafting strategies, the indigenous oil companies can benefit from this liability of smallness by entering market segments which may offer lower margins but higher volumes as they have lower fixed costs than the MNOCs.

The chaos theory explains how businesses adapt to a rapidly changing environment. Whilst businesses may anticipate and plan for changes, they have the ability to influence the change as it emerges, Wah (1998) quotes Eisenhardt as describing the 'edge of chaos' as a level at which a company has 'enough structure to hold processes and people together and enough flexibility to allow innovation and adaptation'. Eisenhardt argues that both too tight a structure, and too loose a structure, is not conducive for dynamic strategy. Established companies such as the MNOCs face challenges in quickly adapting strategies to suit the environment. By virtue of their size and the ingrained systems and processes, the companies often fail to adjust. The planning horizons for the MNOCs can be anything from three to ten years and once agreed upon, strategic plans are hard to change. This eliminates the versatility of the MNOCs to respond to shocks in their environment.

The legislative changes that have occurred over the past twenty seven years in the fuel sector bear testimony to this. Initially the MNOCs were treated favourably by the Government and protected from competition by the virtual monopoly they had in the retailing of fuel. Their profitability was also protected by the Government through the provision of fuel to them. The Government bore all the risks associated with the price shocks experienced in the petroleum markets due a number of factors whilst the MNOCs profit margins were almost guaranteed for as long as there were consistent fuel supplies. Even at the point of deregulation, the MNOCs still were protected by the continued supply of product to them as the Government sought to capitalise on their extensive distribution channels.

The political and economic conditions in Zimbabwe at the moment are similar to those that prevailed in Argentina during the period 1989 to 1999 where the economy was characterised by high inflation, recession and privatisation of state enterprises. In their study of the Argentinean economy, Hatum and Pettigrew (2006) examined the pharmaceutical and edible oil industries which faced very strong competitive pressures and had a large presence of indigenous family firms to determine the characteristics that determined the ability of firms to cope in dynamic environments. They found that characteristics such as flexibility, innovation and adaptive agility allowed firms to adapt quickly to environmental stress. Indigenous firms found it difficult to achieve organisational flexibility due to the reluctance to delegate authority and professionalise the company by recruiting skills from outside to complement the entrepreneur.

Mintzberg and Waters (1982) classify strategy according to whether it is intended or and emergent/realised strategy. Strategy takes place in waves or cycles and in the first phase, uneven, high paced growth is recorded as a result of entrepreneurship. Entrepreneurship requires the taking of giant leaps in order to expand the company and this is then followed by lagging strategies in order to stabilise the company and bring order to company activities by implementing systems. Entrepreneurship is part of the process of creative destruction and contributes to the dynamism of economies. According to Mintzberg and Waters, an entrepreneur is a bold decision maker who is fully in control even when undertaking activities with an uncertain outcome. Since the entrepreneur has full and intimate knowledge of the business, he uses this knowledge to make intuitive decisions. During the entrepreneurial mode, strategy precedes structure. Environmental forces weaken the entrepreneurial spirit of the firm and the entrepreneur is forced to implement strategies that sustain the firm thus benefiting society through the creation of a stable member of society.

The next chapter reviews literature relevant to deregulations. The review examines the theoretical reasons for deregulation of industries. The impact of deregulations on other industries is also examined in order to create a generalisation of what impact deregulation can have on industry.

3. LITERATURE REVIEW

3.1 Introduction

In this section, a review of literature relevant to the topic is conducted. Deregulation refers to the removal of regulations governing a particular industry or sector. In order to understand regulation, the first section of this review examines the purposes for which industry is regulated. The next section examines the reasons for deregulation whilst the final section discusses deregulations that occurred in other sectors and their effects on those sectors. Through this examination, generic results of deregulation can be identified and compared to those that have occurred in the petroleum sector.

3.2 Traditional theories of regulation

Government has the power to either legislate policies that create a favourable environment for companies in a sector or to legislate policies that are perceived to be detrimental by those companies. Government's power stems from its ability to use coercion through its taxation policies. Regulation is generally acquired and operated by an industry for its benefit and research conducted by Stigler (1974) culminated in the development of the theory of economic regulation. Economic regulation is essentially about who benefits from regulation, what form the regulation takes and its effects on the allocation of resources. In this theory, regulation is either sought by industry or it is forced upon an industry by politics. In research conducted into how government and industry interacted, Stigler found that industry often sought regulation and thus was the main beneficiary of regulation.

Two other alternative theories of economic regulation; the Public Interest Theory and the Political Interest Theory are offered but it is argued that it is sometimes difficult to determine in whose interest legislation is passed. Industry may seek the protection of government through a subsidy that cushions it against adverse economic conditions. The government can also legislate barriers to entry making it difficult for competitors to enter the industry and this protects incumbent firms. Government can also influence competition in a sector by the laws it creates that affect goods and services that are either complimentary or substitutes. The fourth aspect of Government intervention relates to the prices charged within an industry. Though its coercive power, government has the ability to allow participants to collude on the prices charged within their industry. Favourable legislation is costly and therefore firms in an industry must be prepared to pay for it either through financial support for campaigns or through political support for the Government by voting.

Economic regulation is further defined as the pattern of government intervention in markets and encompasses taxes, subsidies and laws governing the entry and exit of firms into an industry and can be classified into two main groups: Public Interest Theory that states that regulation corrects inefficiencies and inequitable market practices and Capture theory in which regulation is viewed as a defence mechanism by interest groups to secure positions of their members. Incomes of professionals such as lawyers and doctors are maximised by regulation that restricts the ability to practice medicine or law to registered members of their professional associations.

Public Interest theory can be seen in the subsidisation of fuel by the Government to public transport operators and to the farming community .By controlling the prices of fuel, the government was using regulation to avert inequitable market practices which would result in fuel being sold at prices based on the import costs of oil companies.

The economic theory of regulation fails to account for the rejection of some regulatory initiatives by industry (Posner, 1974) (Quirk,1988). The fact that industry rejects some regulatory initiatives defeats the self interest element of economic regulation. Quirk argues that if all regulation was sought by industry for its benefit, there should be no rejection. In his opinion, regulation or policy change reflects prevailing schools of thought and areas of public interest. It is driven by practitioners, researchers, policy makers, economists etc whose research congregates public opinion around a certain way of thinking.

Regulation is also driven by public interest as politicians seek electoral votes and offer support to topics than endear them to the public. Posner's criticism is that the theory requires one to predict precisely who will enjoy the benefits of legislation and to show how that particular group has benefited as compared to other groups. Empirical research conducted into the railroad, trucking and airline industries had not presented evidence in favour of economic regulation.

Posner argues that regulation does not correct market inefficiencies and his view is supported by regulation in industries that are neither highly concentrated, nor exude monopolistic tendencies. Government yields the power to empower specific groups through economic regulation, but this can only be done by treating regulation as a good with its own demand and supply curves. The laws of demand and supply come into play to ensure that only the groups demanding regulation obtain it.

A problem with the enforcement of collusive pricing is the free rider problem where each member of an association can opt to charge prices that are lower than those agreed to in order to maximise on volume sales rather than on margin. The free rider problem is surmountable because when an industry is regulated, members of that industry are affected differently due to their size, financial base or company structure. Each member has a vested interest in ensuring that they participate in the legislative process in order to articulate their views. Though this process is simpler when there are a few firms in an industry, the process is still possible when the number is large provided circumstances create a rallying point for the firms. The elimination of the free rider problem takes care of the demand side of the regulation curves (Posner, 1974).

Political systems affect legislation and in an entrepreneurial system, favourable legislation is sold to industries that value it most, eliminating the need to form cartels to protect their interests. Where a coercive political system is in place, legislation is awarded to those who have the power to create adverse conditions for politicians e.g. trade unions that can authorise work stoppages in critical sectors of the economy such as the public transport system. In a democratic system, legislation is awarded through voting by elected representatives rendering numbers crucial. It is in this system, that the free rider problem can affect the industry's ability to get 'friendly' legislation passed particularly if they do not contribute financially to ensure that sufficient votes are garnered to push through favourable legislation.

The challenge with regulation is discovering the actual purpose for which legislation is enacted. In some instances, government enacts legislation to entrench itself with voters e.g. the provision of subsidised fuel and in some cases government is used by a powerful section of industry to achieve its own agenda. Industry may induce government into legislating policies that protect it through subsidies for engaging in sub economic activities that are a social necessity e.g. the provision of fuel to farmers at cost. The government also has the power to create an uneven playing field by protecting incumbents and making it impossible for new entrants.

The influence of interest groups and politics in the regulatory process is also examined by Peltzman (1989) who found that it was in the interests of politicians to a broad spectrum of political interest groups rather than to focus on a particular group. Politicians need to garner political support across interest groups hence the need to cater for a diverse range of interests. Regulation strives to enhance efficiency and therefore no one can object to changes that eliminate deadwood. In his examination of the American oil industry, Peltzman found that producer profits were protected by output quotas and the enforcement of import quotas during the depression. When a rise in OPEC prices increased demand for domestically produced oil, regulators introduced taxes to cut windfall profits made by the oil companies as a result of increased demand. Winston (1993) adds price, entry and exit and the social contract (health and safety) as factors that should be encompassed by regulation.

3.3 Deregulation

Deregulation refers to reforms that involve industry restructuring, deregulation of prices and entry into one or more formerly regulated segments (Joskow, 2005). It seeks to reverse the inefficiencies that regulation creates in a market (Bailey 1986). Regulation in America was often enacted to avoid destructive competition and its acceptance varied according to the state of the affected industry. Both the railroad industry and the agricultural sectors in America had welcomed regulation as it provided stability and protection from exploitation. Regulated industries did not pay much attention to cost control and this resulted in inefficient provision of services. Deregulation was supported as it resulted in efficiencies in service delivery, labour costs and productivity and resulted in changes to the market structure. Bailey advocates for deregulation as it creates a competitive and more innovative environment.

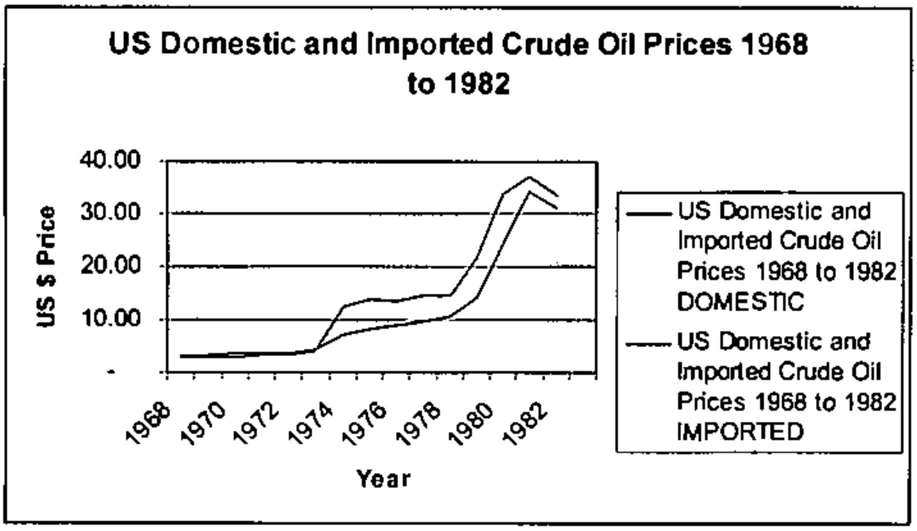
3.3.1 Deregulation in the American Oil Industry

The American Oil industry was forced to partially deregulate due to pressures created by political decisions that resulted in pricing distortions within the sector. Price ceilings imposed on domestic oil forced prices below market levels discouraging further investment in the sector by domestic producers. Deregulation in this sector was opposed by both producers and customers and ultimately only enforced because an Executive order was issued by Government. The net result of the Executive order was a reduction in the prices of oil which benefited customers and protected producers via import restrictions. This was similar to empirical results from the airline and telecommunications industry where customers benefited from lower airfares and wider range of choice in the telecommunications sector.

American Government energy policy was geared to ensure that there was the provision of adequate incentives to stimulate maximum domestic production of oil and a reduction in oil imports. Other objectives included achieving equity in the distribution of any windfalls associated with oil price increases and the elimination of the current system of complex price controls, allocations and entitlements (Ikenberry ,1988).

Figure 3.1 depicts changing prices of oil in the USA and the shifting balance of pricing between domestic and imported oil. From 1968 to 1973 prices of domestic prices were higher than the prices of imported oil but from 1974 prices of domestic prices became lower. Industry and wage prices were regulated and this protected consumers from price increases. The Arab oil embargo of 1973 resulted in a dramatic increase in the world prices of oil forcing the USA to reduce the volumes of imported oil. In order to encourage domestic production of oil, an excise tax and import fee was levied on all imported oil. Industry had been influential in enlisting the support of Government to act in favour of their industry. When prices were declining, the industry sought Government protection to maintain prices .However, the rise of consumerism meant that when world prices rose, Government sought to protect consumers. Government's legislative polices vacillated between being pro industry (capture theory) to being pro consumer (public interest theory) (Ikenberry 1988).

Figure 3-1



Energy Information Administration ,*Annual Energy Review*,1984

In his examination of how deregulation had affected industry in the United States of America, Winston (1998) argues that the effects of deregulation cannot be felt immediately but constantly change as a result of environmental forces. He criticises regulators for being impatient and using the extreme axis regulate - deregulate when the benefits are not clear. Winston's criticisms can be seen in the petroleum sector where the Government has shifted policy numerous times without allowing a gestation period for the policies enacted. Although oil companies were only permitted to import their own fuel in 2003, in 2007, the Government enacted legislation reverting to the situation where all importations were done through NOCZIM.

3.3.2 Deregulation in the Airline Industry

In the American airline industry, regulation had been enacted in 1938 with the regulation being actively sought out by the leaders of the airline industry in order to protect their industry from the destructive competition resulting from pricing competitions. The Civil Aeronautics Board was responsible for the legislation of the sector and it determined what routes each airline flew and restricted entry into the sector. When the sector was eventually deregulated, pricing and route control restrictions were removed. This changed the competitive structure of the industry by forcing airlines to focus on the reduction of costs, improve efficiency and become more responsive to customer needs. The ability of the airlines to become strategically innovative counted and competition shifted from being purely about pricing to marketing innovations that included offering frequent flier points and loyalty programmes (Goll, Johnston & Rasheed, 2006).

Operational strategies were also changed in the scheduling of flights and this saw the launch of hub and spoke systems. Differential pricing systems were also launched and these increased revenue by allowing airlines to price seats on the same plane differently. Audia, Locke and Smith (2000) argue that differential pricing was successful because of the differences in the elasticity of demand curves of the airline passengers.

In their study of the deregulation of the airline industry, Goll et al focused on the influence of the environment on competitive strategy. They hypothesized that with deregulation, firms in the airline industry placed a greater emphasis on low cost, differentiation or focus strategies and that by focusing on these strategies following deregulation, the firms performed better than those firms that did not make these strategic choices. The above hypotheses were tested through a longitudinal study of the airline industry sampling all Major, Regional and National Air carriers from 1972 to 1975. Variables studied included deregulatory intensity, business strategy, financial performance and Air carrier size. In the results of this study, aligning corporate strategy and firm size with the environmental context resulted in the airline firms performing better. The size of the firm had greatest impact on major air carriers and it was on these airlines that deregulation had the greatest impact.

3.3.3 Deregulation in the Financial Sector

The banking crises that resulted from the Great Depression of the 1930's had made the American banking sector highly regulated (Hammond and Knott, 1988). Banks were restricted to operating within as single state and restrictions were placed on the services the banks could offer and the prices charged for these services. This protected banks from external competition and they operated in clusters within the states. When the sector was eventually completely deregulated, the removal of the geographic restrictions on banking led to a decline in the number of banks.

Jeon and Miller (2007) found that the structure of an industry changes as a result of entry, exit and mergers amongst the institutions in a sector. In the financial sector, free exit reduces confidence in the sector and can lead to a banking crisis. Regulators have the onerous task of preventing these crises by controlling the exit of firms from the sector. The advent of competition within the sector forced banks that were poor performers to exit the industry through either mergers or by controlled failure. Jeon and Miller concluded that deregulation of the sector had encouraged the consolidation of institutions. New entrants into the sector were also noted and these had the effect of cushioning the number of declining institutions.

In France, deregulation in the banking sector reduced government intervention in bank lending thus paving the way for banks to compete freely in the credit market. State subsidised loans were eliminated allowing capital inflows onto the market to be determined by market forces. Market conditions became more transparent and conducive to allow for fair competition. In their analysis of the Banking Sector, Bertrand et al (2007) found that the regulatory changes had affected the structure of the industry. Sharp changes occurred in the capital structure and bank lending decisions after the reforms and firms that failed to reorganise themselves efficiently were saddled with a higher cost of capital and an inability to access new loans.

Monitoring and screening of bank loan applicants improved as a result of the reforms. To improve efficiencies, banks lowered the average wages paid and outsourced non key activities. Similarly to the United States, banking deregulation resulted in the exit from the industry of poor performing banks who could not adapt their strategy to the changes in the operating environment. By removing artificial barriers to entry, the forces of creative destruction were encouraged and banks feeling that their survival was threatened became more efficient. In both France and the United States, deregulation altered the competitive landscape by forcing incumbents to become more competitive.

An important consideration when discussing deregulations is what is termed the deregulatory snowball; a term explaining how, once initiated, deregulation may be difficult to stop and equilibrium is only reached when there is no regulation at all (Hammond & Knott 1988). In the American airline, communications and trucking industries, deregulation was a result of the politics of ideas (Quirk, 1988). It became fashionable to remove the barriers to competition and through the work of politicians, deregulation gained popularity. Proponents of deregulation obtained powerful political positions and were able to use their positions to push for deregulation without the usual lengthy legal processes. In the financial sector, Hammond & Knott found that the economic, technical and legal changes within the industry changed the views held of regulation and the impetus for change came from outside the industry .Although the intention of the industry was to achieve partial deregulation, environmental pressures kicked in the deregulatory snowball resulting in far more widespread regulatory changes than anticipated. Effects of the deregulatory snowball can be seen in the petroleum sector where the eventual change was much more than the intended change. Deregulation was simply intended to encourage local participation in the sector through the licensing of local oil companies but in the end, there was a proliferation of layers in the sector armed with Direct Fuel Import licences.

According to Winston (1998), an across industry survey in the United States analysing the effects of deregulation in the Airline, Trucking, Railroad, Banking and Natural Gas sectors showed that deregulation had improved the efficiencies of these sectors by between 25-75%. In most cases, reduced costs became competitive tools as they enabled price differentiation. Customers benefited through an average price reduction of between 30-75%. In sectors which were viewed as natural monopolies due to their large economies of scale such as telecommunications, electricity and cable, deregulation proved this to be a myth as technological advancements levelled the playing field. Deregulation unbundled services that were previously bundled together such as power generation, transmission and distribution. Winston argues that deregulation has similar effects across industries; consumer welfare is raised, markets are more competitive, firms are more innovative and ultimately, society benefits.

3.3.4 Expected benefits of Deregulation

Through the review of literature conducted on deregulations, a number of themes emerge consistently in the empirical studies conducted (Bailey 1986,Joskow 2005,Winston 1998). Although the literature reviewed is drawn from industries such as airline, trucking and financial services in which have empirical studies have been conducted in the USA, the same expectations can be extended to the deregulation of the petroleum sector in other countries such as Zimbabwe.

(i) **Prices**

Customers benefit by paying lower prices for goods and services

(ii) **Variation of prices**

Cost and competitive position considerations result in variation of prices paid by customers e.g. in air tickets where passengers on same flight pay different fares as a cost recovery technique

(iii) **Service quality**

Technological change has benefited customers through innovations that enhance service quality

(iv) **Related policies**

Changes in policies in complimentary or related industries e.g. airline travel and the safety industry

(v) **Industry profits**

Reduction in industry profits as competition becomes more intense

(vi) **Reduction in wages and employment**

De-unionisation would result in wage inequality as worker wages varied across industries. Intense competition can also result in layoffs to contain wage costs.

3.3.5 Deregulation in other energy sectors

In the Energy sector, literature abounds on the deregulation of the Liquefied Petroleum Gas (LPG) sectors in various European markets. Grigoryev (2006) found that in Russia, deregulation was essential in order to reduce the debt levels of the Government controlled OAO Gazprom company. Though considered a strategic company and supplying over 25% of Europe's gas requirements, price levels were lower than the European average and deregulation would result in competitive pricing whilst encouraging growth in new industries such as coal and other fuels. Grigoryev found support for Posner's Regulatory Capture Theory with regards to quasi state enterprises as the regulatory environment is designed for their benefit. He argued that deregulation, removed enterprise inefficiencies without any spiral effect on the economy. The deregulation of the petroleum sector saw the removal of

NOCZIM as the major player in the industry and rather than result in inefficiencies, fuel supplies actually increased and oil companies began to compete for customers through pricing.

Grigoryev argues that the lower prices as a result of deregulation may result in the domestic market being starved of supplies in favour of the foreign market. Government enterprises often serve the uneconomic sections of the country and these sectors may be abandoned in favour of more profitable sectors creating undesirable social consequences. Energy production is a strategic key to the welfare of any economy hence Grigoryev suggests that each Government should maintain some control of the sector. This supports the Governments continued participation in the sector through NOCZIM. In the United States, consecutive Governments have realised this need and all domestic policies have been driven by the need to ensure adequate fuel supplies for their country (Sparrow ,1991).

3.4 Challenges in modelling energy policies

In crafting energy policies, developing countries such as Zimbabwe face a number of challenges (Pandey 2001). The fundamental problem that exists is that the policy requirements of developing countries are fundamentally different from those of developed countries. The existence of inequity and poverty and a preference for the rural way of life poses challenges for policy modelling. Despite the amount of legislation enacted, shortages and supply inefficiencies remain characteristic of the sector. Inequitable distribution policies exist that favour urban areas at the expense of rural/less developed areas. Economic challenges are faced as a result of the inefficiencies in the state run companies. The underdevelopment of the fuel markets, political institution barriers e.g. weak governance structures and unsustainable use of natural resources also pose a threat to the modelling of energy policies. Pandey argues that the energy policies developed by these countries should take cognisance of their unique circumstances rather than copy policies from the developed countries. Policies should conform to the social, economic and technological characteristics of the developing countries.

The implications of Pandey's research are that although the economy benefits from deregulation, it is the country's best interests to maintain presence in the sector through NOCZIM. The government should only ensure that the policies implemented encourage competition in the sector and hence improve efficiencies rather than simply to entrench NOCZIM's position in the market.

The literature review conducted above highlights the experiences other countries following the deregulation of various sectors of industry. Generic benefits of deregulations are also presented and the challenges confronting developing countries in modelling energy policies are discussed. The next chapter examines various research methodologies before selecting one to use in conducting a research survey. The methodology is selected based on fit with the research questions generated in Chapter One.

4. RESEARCH METHODOLOGY

4.1. Introduction

This chapter discusses the possible research methods to be implemented in the study. An overview of the main research methods is given and the appropriateness of each method is discussed. The aim of this chapter is to select the most appropriate method to answer the research questions.

4.2 Quantitative and Qualitative Research Methods

Qualitative research methods are used mostly when it is necessary to identify new theoretical propositions or to further understand a complex situation. It may take the form of a case study where one subject or a few subjects are studied in depth and this method is suitable for examining situations where little is known. In most cases, data is collected through conducting focus groups, conversational interviews or through participation and observation. Qualitative research is fundamentally interpretive and requires the researcher to engage in an active process of interpretation. The researcher's task requires decisions on which information to record and which information to discard (Schram, 2003).

Quantitative research methods involve studying phenomena as they exist and the most common research designs are observation studies, correlational studies and survey research. Survey research can refer to any form of descriptive, quantitative research (Johnson, 2001) but may also be restricted to describing the acquisition of information from one or more groups of people through surveying a sample and using the results to make inferences about the population (Leedy, Ormord, 2005). Surveys can be conducted through face to face interviews, telephone interviews or through administering a questionnaire.

Though the methods differ in terms of their purpose, focus, methods of data collection and data analysis, there is a common need to identify appropriate samples from which to collect data.

4.3 Research Design

Johnson and Onwuegbuzie (2004) support the use of a combination of qualitative and quantitative methods when conducting research. This combination termed triangulation enables researchers to gain more detailed understanding of the phenomena being studied. As this research is of an exploratory nature due to the absence of information on deregulations in the petroleum sector, this research will utilise mixed research methodology. The researcher chose a triangulated approach to the research in order to exploit the advantages of each method fully. The research instrument selected has both close ended and open ended questions making it appropriate for use in both research methods. The preliminary interviews conducted by the researcher enabled the gathering of qualitative information on the research topic and aided the crafting of the questionnaire which then formed the qualitative section of the research.

4.3.1 Population and Sample selection

The target population for this study is the fourteen recognised oil companies according to statutory instrument 301A of 2001. The target population consists of the oil companies in the Table 4.1 and consists of both MOCs and IOCs.

Table 4.1 – Target Population

NAME OF OIL COMPANY
Atrax Commodities
BP and Shell Marketing Services
Caltex
Country Petroleum
Engen
Exor Petroleum
FSI
Jovenna
Kadoma Haulage
Migdale Investments t/a Comoil
Mobil Oil Zimbabwe
Royal Oil
Total
Wedzera Investments
COUNT = 14

In selecting the research sample, the researcher excluded the MNOCs as they were in existence before deregulation unlike the IOCs that emerged as result of deregulation. The elimination of the MNOCs leaves a sample size of nine indigenous oil companies. The research question seeks to examine the influence of deregulation on the indigenous oil companies hence the target sample consists of the nine indigenous oil companies only. By including all the IOCs, the findings of the research will be more representative of the entire population. All members of the population being studied were known and the researcher could easily classify the oil companies into the two groups based on their status.

4.3.2 Research Instruments

The research was conducted primarily through a questionnaire administered to a selected decision maker in the each of the target IOCs. The researcher intentionally targeted respondents within the management structure of the company and were involved in charting the strategic direction of their company. The essence of this research paper is strategic, hence the selection of respondents with the capacity to influence the strategic choices of the company. The questionnaire was designed to address the four main areas of research i.e. the effects of deregulation, current competitive strategies, potential strategies to be employed in the sector and the ability of the sector to survive the economic and political challenges confronting the country.

The questionnaire (Appendix A) consisted of three sections with the following aims:

- Section A :Background

The first part of the questionnaire consists of a demographic section in order to profile the respondents and their companies. The demographic composition of respondents can help when seeking to determine the influence of demographics such as age and gender on the responses obtained.

- Section B : Regulatory Environment

This section consisted of questions on the regulatory regime in order to provide answers for the first research question. The second part of the questionnaire consists of a mixture of open ended questions and close ended questions based on the objectives of the study, the literature review and from the researchers own personal experiences within the sector over the past seven years. The questionnaire was designed to be completed by the respondent within thirty minutes in order to capture the respondents' attention.

- Section C : Strategy

This section was targeted at providing answers to the second and third research questions on strategy. The section also includes questions designed to provide answers to the final research question on the capacity of the sector to survive the political and economic challenges facing the country.

The researcher was aware that questionnaires as a research instrument generally have a very low return rate and in some cases responses are not always complete due to failure to comprehend the questions asked. The length of the questionnaire was limited in order to prevent the process from becoming tedious as this would have a negative effect on the respondents. Although the researcher personally administered the questionnaires to the respondents, they were encouraged to respond to the questions to the best of their ability.

4.4 Data Analysis Techniques

Descriptive statistics techniques were used to arrange and organise the data collected for presentation. The advantage of using descriptive statistics is that the use of graphs and tables makes the data easier to understand. This method of presentation is familiar to many people and is not complicated .The researcher opted to use this simple method of analysis in order to simplify her research findings. The exploratory nature of the research topic calls for the simple analysis of events as they are rather than to use advanced statistical packages. The questionnaire also has a mix of both close ended and open ended questions and the use of descriptive statistics would present an opportunity for more detailed analysis to be conducted. The combination of open ended and close ended questions will enable the researcher to glean any further information from the respondents. Using a questionnaire for the collection of data allows for standardisation and comparison of responses. It is a widely accepted method of collecting information in a systematic manner and allows one to record the responses achieved methodically

4.5 Limitations and Delimitations

The sector has a number of other players who were excluded from this survey. There are a number of other companies that have direct fuel licences for the importation of fuel for their own use. DFI licences are intended for companies that have a high utilisation of fuel such as mines and commercial transporters and that have the resources and capacity to organise their own importations. However, the weaknesses in the regulatory environment have resulted in some of these companies selling fuel directly to the public without any consequences. These companies were deliberately excluded from the research as the researcher did not believe that they have a long term view of the sector. This is evidenced by the absence of investment on their part into the infrastructure that forms part of the key success factors in the industry.

Although the researcher tried to ensure that the research instrument did not require respondents to reveal too much company sensitive information, the researcher acknowledges that the responses given may not be the same if the research was repeated and conducted by an independent person. This is due to the fact that being an employee of a competitor may have compromised the researcher's ability to get more company specific information.

4.6 Ethical Considerations

The major hurdle the researcher had to overcome in conducting this research was suspicion towards her motives for collecting data from her target respondents. The majority of the respondents are personally known to the researcher and are aware that the researcher is employed by a competitor. This challenge was overcome by explaining the nature of the research being conducted and the intended audience. The political climate also makes respondents weary of commenting on issues that may be viewed as being political. The topic of deregulation is one such topic where respondents may be inclined to criticise Government policies. The above challenges were eliminated firstly by ensuring that no sensitive or company specific information was collected and secondly by careful construction of the research questions. No obtrusive personal information was collected neither were names or designations of respondents recorded on the questionnaire. This was deliberate as the researcher did not want the respondents to be weary of disclosing information. By offering the respondents the chance to do so anonymously, the researcher hoped to improve the quality and honesty of the responses given.

4.7 Pilot Study

Prior to conducting a pilot study to assess the validity of the measurement instrument, the researcher undertook preliminary interviews with selected people within the sector in order to obtain an overall view of the sector from their perspective. People interviewed included the Company secretary for NOCZIM which performed the regulatory role prior to the enactment of the Petroleum Act. The purpose of this interview was to generate an opinion on the changes that had taken place in the sector over the past seven years from a point of view of the ad hoc legislator. The Managing Director of the researcher's company was also interviewed in order to discuss their opinion on the state of the sector and the impact the changes in legislation have had on them.

After conducting the interviews above, the researcher then formulated the research questionnaire. The questionnaire was administered first to another member of the industry whose criticisms of some of the ambiguity of the instrument were noted. The questionnaire's shortcomings were then addressed before wider distribution to the targeted respondents.

4.8 Data Collection

The data for this research was personally collected by the researcher in November 2007. The research did not require much in the way of financial resources as all the respondents were located in the same city as the researcher. The researcher restricted herself to the smaller population due to time constraints.

4.9 Validity and Reliability

In designing the research instrument, the researcher took cognisance of the issues of reliability and validity that require that the measurement instruments and interpretations of data be representative of the sample studied. To achieve validity, the researcher sampled the questionnaire in a pilot study to ensure that the questions were unambiguous resulting in respondents giving relevant answers. The sample size was small hence the researcher recommends that a larger sample be taken in future studies and that the research be conducted by an independent party to avoid issues of personal bias.

4.10 Summary

In this chapter, the research methodology was described in detail together with the data analysis techniques to be used to interpret the results of the data collected. In the next chapter, the results of the research are presented and a discussion of these results conducted.

5. RESULTS AND DISCUSSION

5.1 Introduction

This chapter presents and discusses the research findings using descriptive data presentation techniques such as pie charts, line and bar graphs and tables in order to clearly illustrate the research findings. The research findings are linked to the research objectives outlined in Chapter 2. This research was conducted in order to examine the effect of deregulation on the petroleum sector. The purpose of this assessment is to determine how deregulation has benefited IOCs and what strategies they can implement in order to become more competitive.

5.2 Questionnaire Response Rate

The total sample size selected consisted of nine indigenous oil companies. Questionnaires were administered to seven of the selected companies and five duly completed responses were received. Questionnaires could not be administered to two of the targeted companies as they had had their oil company licences cancelled during the course of the year. They were therefore eliminated from the research as they no longer met the criteria set for inclusion in this study.

Figure 5.1 Questionnaire Response Rate

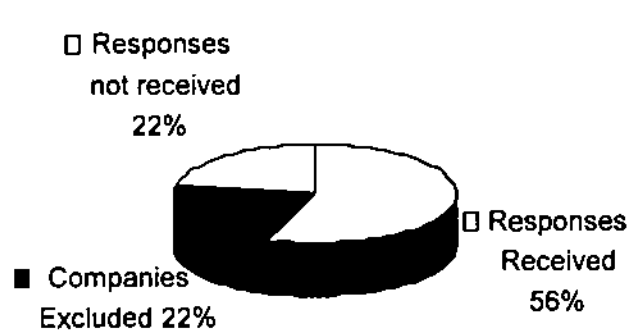


Figure 5.1 shows a response rate of 56 % to the questionnaire. The results are lower than anticipated due to the elimination of the two companies that could no longer be sampled for this research. Although at face value, this response rate is lower than the 60 % threshold advocated for by Saunders et al (2003) before a researcher can proceed to discuss and analyse findings, when consideration is made of the two companies that are no longer operating as oil companies, the response rate increases to 71% of the actual population at the time the research was conducted.

5.3 Summary of Background Information

Table 5.1 Summary of section A on Background Information

QUESTION	RESPONDENT NO					
	1	2	3	4	5	TOTAL
1. How long has your organisation been in the oil industry?						
a) Less than a year						
b) 1-3 years						
c) Over 3 years	√	√	√	√	√	5
2) How many outlets do you operate?						
a) 0 – 5	√					1
b) 5-10		√				1
c) above 10			√	√	√	3
3) In which provinces do you have retail outlets?						
a) Mashonaland	√	√	√	√	√	5
b) Matebeleland	√		√	√	√	4
c) Masvingo	√		√	√		3
d) Manicaland	√			√		2
e) Midlands	√		√	√	√	4
4) Who are the major shareholders in the company?						
a) Indigenous Zimbabweans	√	√	√	√	√	5
b) Foreigners						
c) Local Corporations						
d) International Corporations						
5) How long have you been employed by the company						
a) Less than a year						
b) One to three years						
c) Above three years	√	√	√	√	√	5
6) How many employees does your company employ?						
a) 0 -10		√				1
b) 11 -20					√	1
c) 21- 30						
d) 31 -40 D						
e) 41 +	√		√	√		3

Table 5.3 summarises the demographics of the respondents and gives an insight into the size of their operations .All companies surveyed had been in existence for over three years and thus had gone through the various regulatory changes that were being enacted. The five companies surveyed have managed to survive the economic challenges and continue operating despite the very challenging economic condition outlined in Chapter One. The other two companies that could not be surveyed due to the cancellation of their licences may have failed to operate profitably under the economic conditions and folded up.

The IOCs have all established retail sites throughout the country with each of the five respondents having a presence in Mashonaland province. 80% of the respondents have outlets in Matebeleland and in the Midlands showing that the indigenous companies are not restricting their operations to the major centres. The KSFs for the fuel sector list distribution channel as a priority. This means that the IOCs are attempting to establish themselves as formidable competition to the MNOCs by establishing retail outlets throughout the country.

All the respondents have indigenous Zimbabweans as shareholders. Through both NOCZIM and the Ministry of Energy, the Government has put the participation of indigenous Zimbabweans in the sector as a major objective. This participation requires the development and implementation of policies that promote indigenous people. The results indicate that indigenous shareholders are still in control of their companies and have not sold off their shares to foreign investors.

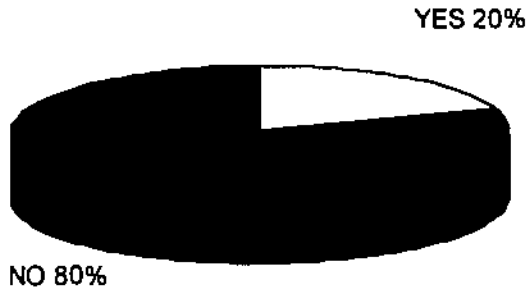
The IOCS have created employment as the majority of them have opened retail outlets throughout the country with 60% of them employing over 41 people each. The respondents surveyed had all been employed by the companies surveyed for over three years, showing stability in employment. This could be an indication that despite the challenges faced by the sector, the sector has the capacity to provide consistent employment. The literature reviewed indicates that one of the expected results of deregulation is a reduction in wages and employment. The results however do not find support for this result as the deregulation of the sector has actually created employment across the country.

5.4 RESPONSES TO RESEARCH QUESTION ONE

The section on the regulatory environment was designed to answer the research question:

Q1. What are the intended benefits of deregulation and to what extent have they been achieved?

Figure 5.2 Responses to Conducive Environment

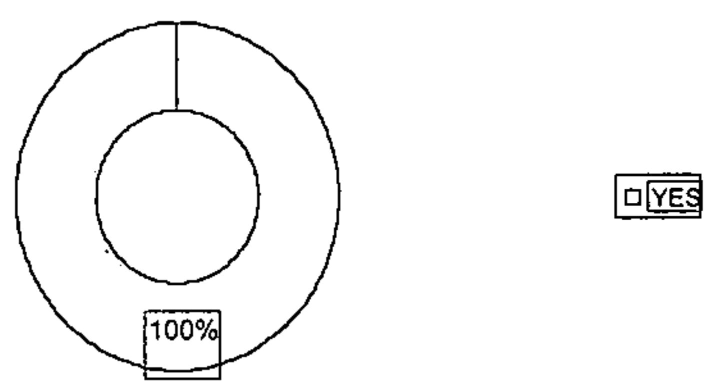


The first question entailed an observation on whether the respondents believed the regulatory environment was conducive to their operations. Of the respondents surveyed, the majority (80%) felt that the regulatory environment was not conducive for their operations. (Figure 5.2)

The literature reviewed established that the Government has a major role to play as a stakeholder in any industry (Stigler 1971, Bailey 1986, Joskow 2005).

It is within the power of Government to legislate policies that can either be in favour or against business. The MNOCs are an example of this as they face immense competition from the IOCs which mushroomed as a result of a change in Government policies. MNOCs were the only participants in the sector prior to deregulation and faced very little interference from Government in their operations. However, from the time the industry was deregulated in 2001, the role of Government has become more pronounced with frequent policy changes as the Government attempts to bring sanity to the industry.

Figure 5.3 Has your organisation benefited from deregulation?



Jean and Miller (2007) found that the structure of an industry changes with deregulation. Their findings are consistent with the findings of this research as the structure of the sector has completely changed following deregulation. Prior to deregulation, the industry was dominated by the MNOCs and NOCZIM only. However, with deregulation, new players were ushered in changing the competitive landscape for the MNOCs. All the respondents (100%) indicated that they had directly benefited from the deregulation of the sector as it allowed them to enter into an area that hitherto had been dominated by the MNOCs.

Although all the respondents conceded that they had benefited from the regulatory change within the industry, the respondents were not satisfied with the nature of regulation prevailing. The major criticisms of the regulatory regime were that:

i. There was no coordination of the various activities in the industry
ii. Regulations did not protect the IOCs from unfair competition
iii. It is restrictive to growth

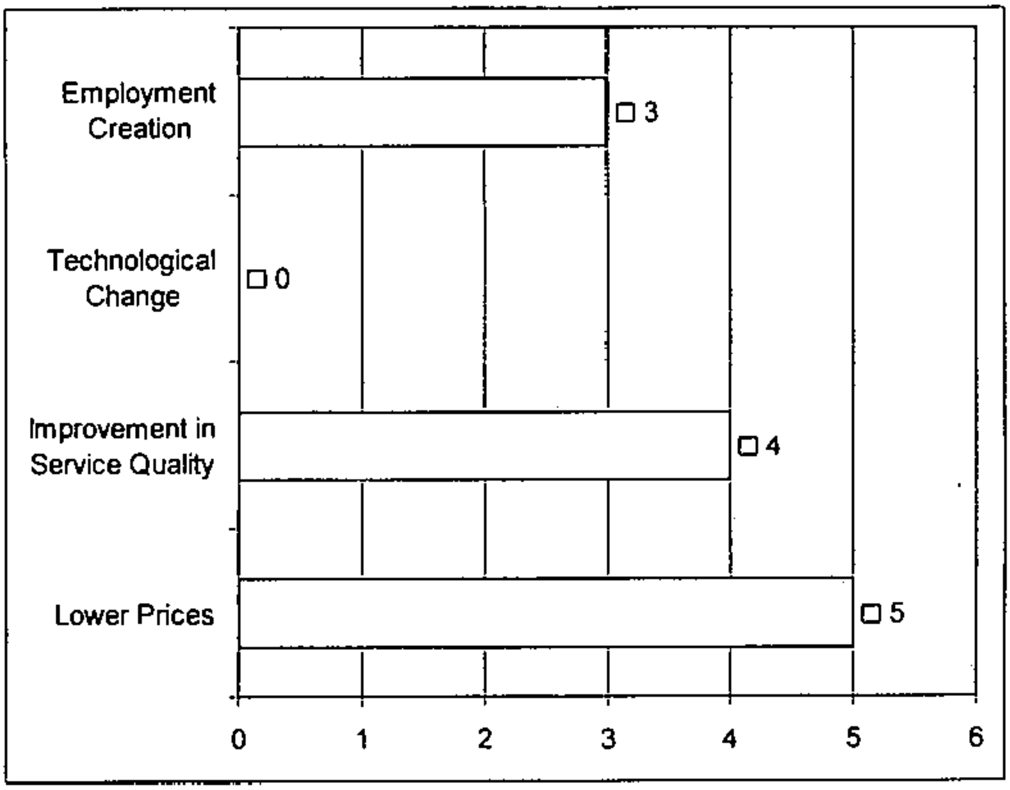
In the open ended questions to this section reasons for the discontentment with the regulatory regime were identified. Although participants acknowledged that their companies were direct beneficiaries of regulatory policy shifts, they felt that the current policies were no longer working in their favour. On the policy front, both economic and political policies were fingered as affecting them the most. Economic policies encompass the Monetary and Fiscal policies and these were blamed for most of the problems facing the companies. The discontinuation of exchange allocations from the Reserve Bank has forced each company to source its own funding for the importation of fuel. This means that the companies are forced to purchase foreign currency on the parallel market at the prevailing exchange rates.

The disparity between the official exchange rate and the unofficial rates present a problem in fuel pricing. NOCZIM has access to foreign exchange at the official rate and therefore offers fuel to its customers at subsidised rates. The Government fuel pricing is based on the NOCZIM costing and these cannot be applied to other players within the sector. The dual exchange pricing regime poses a threat to the operations of the IOCs as they seek to recover the cost of fuel imports. IOCs are by virtue of their inability to obtain currency through the official channels, excluded from targeting traditional NOCZIM customers in order to build a customer base. The traditional customers of NOCZIM include the public transport sector and the farming community who cannot afford to purchase the fuel sold by IOCs at parallel market pricing.

On the political front, respondents felt that Government's political decisions have also had a negative impact on them as they no longer have access to credit lines from International financiers. The number of financiers willing to even offer lines of credit to the country is dwindling daily as financiers are wary of the political and economic decline. The IOCs are forced to pay upfront for all their fuel requirements therefore putting a strain on their cash flows and their ability to expand their operations.

Benefits of Deregulation

Figure 5.4 Expected Benefits of Deregulation



The respondents all felt that the deregulation of the sector would result in lower prices for fuel. This supports the findings of Winston (1998) that deregulation in the airline industry had resulted in increased competition and price differentiation. According to Porter's Five forces analysis, deregulation ushers in serious jockeying for positions among incumbent firms within the industry and forces firms to implement competitive strategies for survival. This benefits customers as they are able to choose at which price to obtain their fuel.

Respondents also felt that an improvement in service quality (Goll, Johnston & Rasheed, 2006) and employment creation would be other benefits of deregulation. None of the respondents thought that technological change would come about as a result of deregulation. This finding is in contradiction to the findings of Winston (1998) who found this to be true of the American industry after deregulation.

Another additional benefit of deregulation cited by the respondents was the removal of the stranglehold by multinational oil companies on the industry and the country in general. MNOC strategies are directed by the financial desires of their parent companies and have little regard for the local communities. This is in line with Pandey's (2001) argument that developing countries should model policies based on their own circumstances rather than the circumstances of the developed countries as the social, economic and political situations are different.

In the case of the MNOCs, operating decisions that are perceived to be uneconomic are not taken and due to the breadth of their activities, they can afford to hold onto a non performing asset and draw on internal resources to fund operations. Continued reliance on these companies can result in dire consequences for the Government hence the need to encourage the participation of local companies in the sector. Since the indigenous companies rely on the business generated in the industry alone, they are forced to innovate in order to survive. Failure to innovate may result in the 'death" of the company through either an exit or a merger (Jeon & Miller 2007). The exit of the two companies initially included in the research could be attributed to this inability to innovate or simply to competitive decline (Hamel and Prahalad 2000).

Disadvantages of deregulation

The respondents all agreed that deregulation resulted in reduction in the profits earned by incumbents as they are forced to use prices as a competitive weapon. The mushrooming of new entrants also reduced the market share of incumbents as they are forced to contend with the loss of revenue to the new players. This redistribution of resources is in favour of the new entrants as it enables them to build their own market share but irks the incumbents as they might not be able to regain the business lost due to corporate inertia.

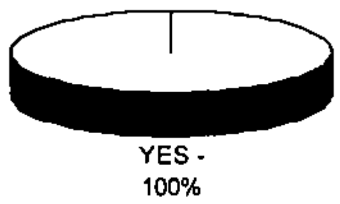
Other respondents (40%) found that deregulation opened up the market to speculators with no long term interests in the development of the industry. This can be seen in the number of companies that have acquired DFI licences presumably to import fuel for their own use but end up selling the fuel. These players emerge to take advantage of an opportunity in the sector but disappear once they can no longer make any super profits. The emergence of these speculators is not good for the long term interests of the nation as it may cause environmental damage through failure to adhere to environmental, health and safety regulations that Oil companies have to adhere to.

One respondent felt that deregulation had stifled growth within the sector as participants were disillusioned by the number of potential players in the sector. The respondent indicated that there were a total of one hundred and one companies with the DFI licences (inclusive of the oil companies) and it was difficult to coordinate activities or implement standards of operation in the sector particularly when it comes to retailing or the storage of fuel. This would result in minimum investment into the sector as both incumbents and potential participants would look in to investing in other sectors of the economy which are more organised and where there is less competition. Growth within the sector can only be achieved by allowing the companies within it to growth organically and develop proper structures to enable them to be competitive against the MNOCs rather than to continue with the proliferation of 'briefcase' oil companies as one respondent termed them.

Benefits of Petroleum Act for the sector

The Petroleum Act was enacted in 2006 as the legal framework for operation in the sector. It has not yet been operationalised and the question regarding its potential benefits was posed to respondents to gage whether they thought it would overcome some of the present challenges confronting the oil industry.

Figure 5.5 Will the Petroleum Act benefit the sector?

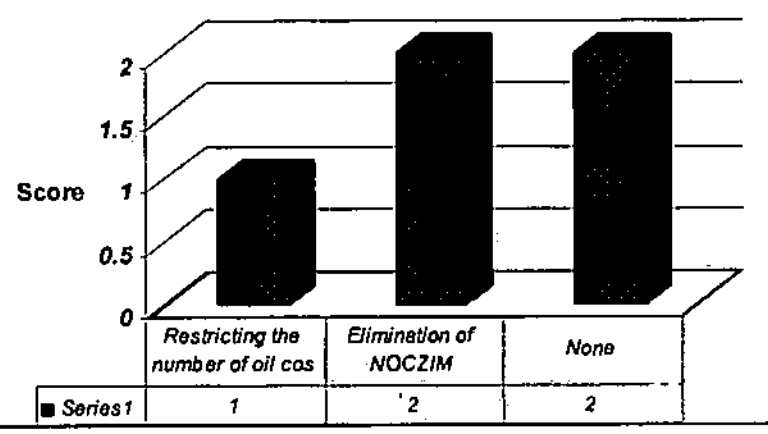


The respondents surveyed unanimously agreed that the Petroleum Act was beneficial to the sector as it would raise the standards of operation of the oil companies. The act would set the operating standards for all oil companies and enforce compliance to its provisions particularly in the areas of environmental, health and safety. The Act was also expected to eliminate all unscrupulous dealers from the sector thus paving way for the oil companies to grow their market share by consolidating their operations and taking over the customers of these 'briefcase' oil companies. One respondent thought that the Act also had the potential to stabilise prices as the remaining incumbents could organise themselves and collude on pricing. The respondent felt that the current number of potential players in the market mage it impossible to collude. The briefcase oil companies do not have overheads and can afford to undercut the oil companies on pricing thus using pricing as a competitive tool.

The unanimous agreement on the benefit of the Petroleum Act for the sector supports Quirk's (1988) argument that industry members cannot reject legislation that has the potential to benefit them. In this case, the reasons put forward by the respondents above for supporting the Act show an element of self preservation.

The respondents were divided with regards to what additional legislation was required in the sector as shown in Figure 5.6.

Figure 5.6 What additional Regulations are necessary?

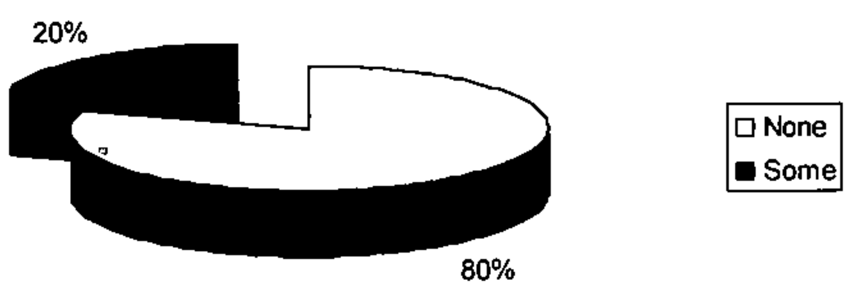


A total of 40 % of the respondents felt that there was no need for any additional legislation as the legislation in place was sufficient for the smooth functioning of the sector. This section of respondents felt that the issue was more of enforcement rather than enactment. They felt that existing laws could adequately protect their interests but it was in enforcement that the Government was coming short. The other 40% of respondents felt that the Government needed to eliminate the monopoly of NOCZIM in contrast to Morse (2005). Morse argues that National Oil Companies are critical to every country as they ensure that the interests of every member of society are taken into account through the distribution of fuel to sections of society that may be viewed as uneconomic by the oil companies. The remaining 10% of respondents felt that there was a need to restrict the number of oil companies allowed to operate in the country. This can be done through consolidation of oil company licences or by the cancellation of some of the DFI licences that were issued. The consolidation of players in the sector is in agreement with Jeon and Miller

(2007) who argued that deregulation encouraged the consolidation of institutions in the financial sector due to the advent of competition.

The final questions in the regulatory section were designed to assess whether the respondents participated in influencing the regulation of their sector.

Figure 5.7 What role do you play in influencing regulation in the sector?



Of the respondents, 80% did not play any role in influencing regulation in their favour whilst 20% participated. This poses problems for the capture theory of regulation by Posner (1974) in which regulation is viewed as a defence mechanism by interest groups to secure the interests of their members. If Capture Theory held true, the number of oil companies participating in lobbying for legislative change should be higher given the situation in the sector. The number of participants posing as a threat to the oil companies surveyed should warrant the participation of more companies in lobbying for favourable policies.

5.5 Responses to Research Questions 2, 3 & 4

The final section of the questionnaire solicited responses to answer the following research questions:

Q2 .What competitive strategies have emerged from deregulation?

Q3. What should the indigenous oil companies do to become more competitive?

Q4. What is the sector's capacity to survive the economic and political challenges confronting Zimbabwe?

According to Hamel and Prahalad (2000), whilst changes in the external environment affect companies, the blame for competitive decline cannot be apportioned to outsiders. Management should evaluate their industry in order to understand the competition within it (Shapiro 1989) and create new strategies as a result of their experiences (Mintzberg and Lampel 1999).This is also termed emergent strategy (Mintzberg and Waters 1982). The questions above were designed to examine the strategies of the companies and assess whether they are in line with the above propositions.

This section of the questionnaire consisted of five close ended questions covering the procurement, pricing, distribution, financing and stocking strategies of the indigenous oil companies. Due to the confidential nature of these questions, the researcher kept the questions elementary in order to ensure responses to them. The questions in this section were merely to give an indication of the above policies without them being too intrusive warranting resistance from the respondents to answering the questionnaire. The responses obtained were used to contrast the strategies of the oil companies and to gage their potential for success in the sector. The table below outlines all the responses to the questions in this section.

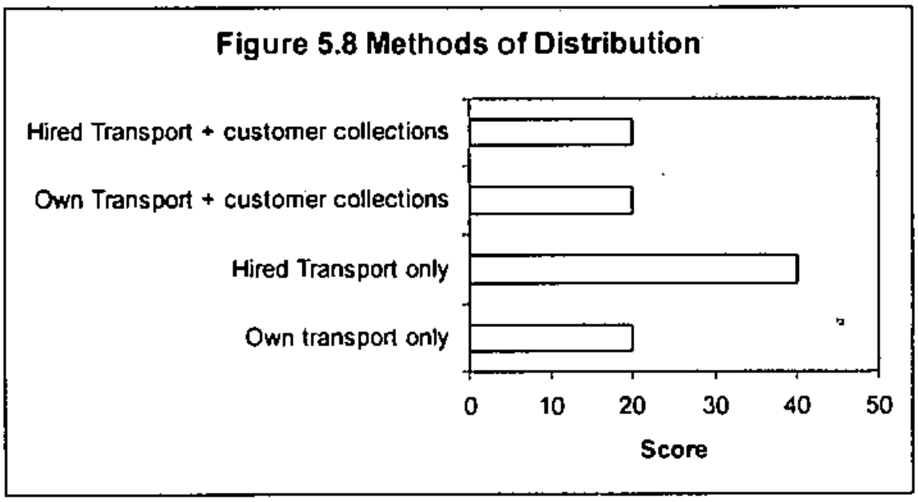
Table 5.2

RESPONSES TO SECTION C						
	1	2	3	4	5	TOTAL
18) Where do you source your fuel?						
a) South Africa	√	√	√	√	√	5
b) Mozambique	√	√			√	3
c) Middle East	√			√		2
d) Other (specify)						0
20) What is your pricing strategy?						
a) To offer the lowest prices to customers	√					1
b) To maximise Profits		√	√	√		3
c) To provide a service irrespective of pricing?						0
d) Cost recovery + margin					√	1
21) How are your operations funded?						
a) Own Resources	√	√	√	√	√	5
b) Local banks						
c) Foreign Banks						
d) Credit Lines						
e) Other (Explain)						
22) How much stock cover (if any) do you hold?						
a) 0- 7 days		√	√	√	√	4
b) 7 – 14 days	√					1
c) 14 – 21 days						
d) 21+						
e) None of the above						
23) How do you distribute your products?						
a) Own transport		√		√		2
b) Hired transport	√		√		√	3
c) Customer collections				√	√	2

The responses above were analysed in relation to the Key Success factors of the Oil industry (Grant 2005, pg 99). These factors affect the competitive position of a firm within an industry and enable the determination of action to be taken by a company to advance its competitive position.

- Distribution Capabilities

In addition to having a wide network of retail outlets, these KSF requires the use of efficient distribution channels. These channels include the transportation of product to customers. Of the respondents the utilisation of the distribution channels was as follows:



The analysis of the distribution method for fuel above shows that the majority of respondents are reliant on hired transport to distribute their fuel. This places them at the mercy of the transporters and can put them at a cost disadvantage particularly in the distribution of smaller volumes of fuel. In the transport sector, transport is charged per load regardless of the volume transported and where these volumes are less than a load, the average transport cost per litre increases. The outsourcing of transport services can result in a competitive disadvantage for the oil companies as they may fail to make deliveries on time whilst waiting for the transporters to schedule them. This may result in a low turnaround time for the companies .On the other hand, the MNOCs control the distribution of their products to their customers as they all operate transport fleets.

➢ Procurement Capabilities

All the respondents procured some of their fuel from South Africa with only 40% of the respondents procuring fuel from the Middle East. Of late, South Africa has faced challenges with the volumes of fuel produced. In such instances, the export of fuel has been curtailed putting countries that rely on it for supplies at risk. Whilst South Africa is a convenient supplier of fuel due to its proximity to Zimbabwe, the landed price of fuel is often higher than that of fuel from the Middle East. The road transport cost per litre of fuel from South Africa ranges from US $0.07 to US $0.10. When compared to the price of moving fuel by pipeline from Beira these costs are prohibitively higher. The landed cost of fuel is also cheaper as it is sourced directly from Oil producing countries. The fact that the majority of IOCs acquire fuel through South Africa implies that they are at a cost disadvantage to their competitors who utilise the Beira pipeline for their supplies.

➢ Storage Facilities

Another KSF identified for the sector was the maintenance of adequate stocks in order to avoid stock outs. Of the respondents, 80% hold stock cover for between one to seven days whilst the remaining 20% hold stocks for up to 14 days. The low stock cover is a function of resource constraints faced by the companies and it affects their ability to be responsive to surges in customer demand. The turnaround for customer delivery for product that is not in stock can be anything up to 21 days particularly for imports from South Africa and higher for imports from the Middle East. Poor stock cover affects the competitiveness of the indigenous oil companies as they lose clients to the more established MNOCs who may have adequate stock cover.

➢ Pricing

With regards to pricing, 60 % of the respondents admitted to pursuing a profit maximisation strategy. This may be a result of the low volumes currently being traded in the sector. Inability to increase the volumes may force the companies to try and maximise the profits made from each litre of fuel sold. The economic challenges facing the country alluded to in Chapter One, may also force the companies to maximise on trade so as to cushion themselves against hyperinflationary conditions. If one considers that the companies are purchasing foreign currency on the parallel market where the rates are arbitrarily increased, the profit maximisation strategy may be justifiable.

- Financing

The last element discussed was that of financing with all the respondents self financing their operations .This means that the expansion of the retail channels are limited by the ability of the companies to be self financing. The volume of fuel traded is also a function of the ability of the company to self finance. The companies face exchange risk and this means that each time they go back to acquire forex, the rates will have gone up forcing them to procure less fuel.

With regards to the open ended section of the questionnaire the following elements of strategy were noted:

i. Distribution – ownership of trucks to facilitate swift movement of fuel
ii. Location – locating outlets closer to the consumer and in areas viewed as unprofitable by the big oil companies
iii. Participation in the servicing of unprofitable segments of the market e.g. distribution of subsidised fuel to farmers and public transporters
iv. Utilising the facilities of other players in the market e.g. storage facilities. One respondent outlined their just in time strategy which entails picking up product from the NOCZIM or BP depot and delivering it direct to the outlets to avoid double handling of product and to capitalise on the storage facilities of these players as the player does not have their own storage facilities.

5.6 Competitive Strategies

Respondents also noted that there was a need for consistency of supplies if one was to be competitive at all against the other oil indigenous companies. Respondents felt that the IOCs operated in waves as sometimes they had product and at other times they all faced challenges in procuring fuel. This forced their customers to turn to the MNOCs again for fuel. Competitive strategies against the major oil companies are based on the structure and responsiveness of the indigenous oil companies to customers. MNOCs suffer fro an inability to be flexible and this is where IOCs can create a competitive advantage (Wah,1998). IOCs also need to put into place proper systems and structures within their companies in order to be able to compete for the business of large corporate clients who tender for the supply of fuel. IOCs can loose out of this market segment if the customer feels the quality of service offered is not professional enough or if they feel the IOCs do not have the capacity supply them.

5.7 Vision of the future

The respondents interviewed 80% of the respondents interviewed felt that the future competitive landscape would be determined by policies to enforce the shift in business from the MNOCs to the IOCs as there was customer bias in favour of the MNOCs. One respondent felt that legislators should enact a law requiring all customers to purchase at least 51% of their fuel requirements from indigenous oil companies rather than the MNOCs. In conclusion, the respondents unanimously agreed that the vision of the future could not be achieved without a corresponding shift in the economic and political policies of the Government making it easier fro the IOCs to obtain working capital for their needs from both internal and external sources.

5.8 Summary

This chapter presented and discussed the research findings for the research questions presented in Chapter One. The findings were discussed and related to the literature review and the theoretical considerations in Chapter Two. The next chapter concludes this report and presents the researchers recommendations based on her research.

6. CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

In the previous chapters, the research objectives were presented and research questions formulated. Literature pertaining to deregulations, their expected advantages and disadvantages and on the experiences of other countries was presented and analysed. A triangulation of quantitative and qualitative research methods was then used to examine the deregulation of the petroleum sector in Zimbabwe by the selection of a sample of nine indigenous oil companies. A questionnaire combining close and open ended questions was administered to the respondents and their responses tabulated and discussed in relation to the literature review and theoretical considerations previously laid out. In this chapter, the research is concluded and recommendations made on how the indigenous companies can become more competitive and survive the economic challenges besetting their operating environment.

6.2 CONCLUSION

The deregulation of the petroleum sector has forced players to be innovative in their business strategies in order to exploit any opportunities as they arise. Deregulation has indeed changed the competitive landscape through the creation of some oil companies who have been in the industry for seven years. The oil companies have invested in infrastructure and have managed to remain in business under the harsh economic environment. The IOCs have created employment that has proved to be stable over the past seven years showing promise for the future. In deregulating the sector, the Government wanted indigenous Zimbabweans to establish oil companies and this research has shown that this objective was achieved. The structure of the sector has changed with IOCs offering stiff competition to the MNOCs. In this respect, deregulation has produced similar benefits to those seen in the other countries discussed in the literature review section.

6.3 RECOMMENDATIONS

Deregulation concerns Government and it is a function of Government policies towards a sector. It is for this reason that the first recommendations are directed at Government as they are the policy makers.

6.3.1 Recommendations for Government

i. **Regulation**

The Government should immediately operationalise the Petroleum Act in order to have a legal framework for restoring order to the sector. The Act has provisions that prohibit unlicensed companies from engaging in the retail and distribution of fuel and through its enforcement, it can assist to bring sanity to the sector by weeding out unscrupulous fuel traders. The number of registered oil companies should be reduced in order to make it easier to police them. Given the decline in economic activity and the current recession, it may be prudent to restrict the number of licensed oil companies to between ten and fifteen companies. This will encourage the consolidation of some companies and create nationally recognisable local fuel brand names. The current fragmentation in the sector makes it difficult to police participants and this can be resolved through the consolidation of licence holders.

In consolidating licences, Government should select companies that have made significant efforts to invest in the sector through the development of storage facilities, retail outlets, the acquisition of distribution vehicles and the creation of employment. Companies without infrastructure investment should have their licences cancelled. It therefore follows that the Government should halt the issuance of any further licences in order to encourage maximum utilisation and consolidation of the existing licences.

ii. DFI Licences

All DFI licences should be cancelled and the holders of the licences directed to purchase fuel through registered oil companies. This will encourage DFI licence holders to focus on their core business and not participate in speculative activities in the fuel sector. The cancellation of these licences will also open up a whole new potential market with a high volume of demand. Oil companies will need to be more competitive and compete for the acquisition of the business of these companies. The cancellation of these licences will make it easier to ensure that the quality of fuel being imported into the country meets the required technical specifications.

iii. Financial and Technical Support for IOCs

IOCs face financial constraints as they are unable to access funding from financial institutions due to the failure to meet lending requirements. The Government should put in place financial facilities to enable the IOCs to fund their operations. These facilities can be denominated in Zimbabwean dollars and be availed at concessionary interest rates. The loans will enable IOCs to develop and acquire infrastructure. Concessionary interest rates can also be charged on working capital facilities to allow the IOCs to become self financing. Unlike their competitors the MNOCs, IOCs do not have the financial muscle of their parent companies to fall back on and it is the role of Government to help the IOCs develop this muscle. It is in Government's interest to develop strong IOCs in order to cushion itself from political decisions that may be made by the multinationals.

iv. Modernisation of Feruka Refinery and Bio Diesel Projects

In order to cushion itself from the huge fuel import bill, the Government needs to invest resources into the rehabilitation of the Feruka refinery. The refinery is already a national asset that is being underutilised hence the need to refurbish it so that its operations are resuscitated and reduce importation of refined fuel. Once the rehabilitation is completed, any excess fuel produced can be exported to other countries in the region generating the much needed foreign currency for the country. This is the case with South Africa which exports excess fuel produced at its SASOL refineries .South Africa has indigenous oil companies that have benefited from the export of fuel to other countries in the region. IOCs could be given preferential allocation of the export quotas for fuel thus enabling them to substitute their import requirements. The bio diesel project launched by the Government should also be given priority in both resource and technical assistance as this too can complement the production of domestic fuel. Although the country would still need to import feedstock for the refineries, it would benefit immensely from the reduced volumes of fuel imported. The resuscitation of the refinery has the potential to create employment and can also give rise to related upstream businesses.

v. Role of NOCZIM

Although the strategic role of NOCZIM cannot be under estimated, the Government needs to clearly define its role in the sector. NOCZIM is a private limited company with the Government as its only shareholder and it does not make sense for NOCZIM to be tasked with the importation of fuel for all the other oil companies who are in essence its competitors. NOCZIM has not managed to shake off its reputation for mismanagement and inefficiency and it is not wise to entrust it with the procurement of fuel for the whole country. Government should allow oil companies to source for competitive suppliers. In the interim, Government should focus on developing NOCZIM into an efficient operation with the capacity to fulfil Governments social responsibilities i.e. the provision of fuel to the uneconomic sectors of the economy. NOCZIM should utilise its extensive distribution capabilities and infrastructure for the benefit of industry and charge appropriately for these services.

6.3.2. Recommendations for Indigenous Oil Companies

i. Need to form a united body

The research results indicated that the majority of respondents did not participate in lobbying Government for the enactment of policies that are in their favour. Numerous organisations have been formed over the past few years purportedly to represent the interests of the oil companies in the sector e.g. the Petroleum Marketers Association of Zimbabwe (PMAZ). PMAZ failed to adequately represent the concerns of the sector as there were fundamental differences in opinion between the MNOCs and the IOCs. The IOCs broke off from this association and formed a splinter group representing the indigenous players alone as they felt PMAZ was representing the interests of MNOCs only and was being used as a tool to subjugate the IOCs. However, even in this grouping of indigenous companies, differences in opinion emerged with the companies being split between those with infrastructure and those without. It is imperative that IOCs unite and advocate for laws that protect their interests and this can only by achieved by advocating for the cancellation / consolidation of licences so that the remaining number of oil companies is manageable and easier to rally around fighting for a common cause.

A strong representative body can adequately protect the companies and assist in enforcing ethical conduct in the sector. Chartered Accountants are ethically bound by the tenets of their association and wayward members are censured. In this vein, the creation of a representative body will raise the standards of operation of IOCs and protect the reputation of indigenous business people. Errant oil companies that engage in unethical business practices can be brought to book by the association. It is also important for oil companies to unite and look beyond self interest but participate in the resuscitation of the economy by ensuring adequate supplies of fuel to the productive sectors.

ii. Investment in the sector

Although the financial challenges besetting the country cannot be overemphasised, IOCs have to continue to invest in the sector. A long term view of the sector should be taken and resources mobilised for developing infrastructure. The quality of outlets developed should be comparable to those of the MNOC. IOCs should also develop their product lines so that they are not only about selling fuel but have a wide breadth of products. Complementary products should be offered to their customers e.g. tyre servicing, oil checks and other ancillary services. The retail outlets should also develop convenience shops for the benefit of their customers. Although the IOCs have developed a reputation for having fuel, the capability to offer ancillary services is a major competitive weapon in a normal economy where clients have a choice of where to fuel up their vehicles.

iii. Staff Development

IOCs should invest in the development and training of their staff members particularly in areas that determine the establishment of competitive advantage. Distribution, retailing and procurement are some of the key success factors for the industry and hence the need to develop competencies in those areas. Staff training should be thoroughly done to ensure that they are adequately trained in the elimination and prevention of hazards in the sector as highly inflammable and hazardous substances are handled. Investment should also be made into attracting and retaining qualified staff within the sector so the adequate systems are developed.

iv. Development of strategies

IOCs surveyed did not have clear strategies for their operations and most were operating under 'survival strategies' designed to keep them afloat but without any serious consideration as to how they can increase their market share in the long term. Although these strategies may be appropriate in the entrepreneurial stages of the company's life, long term survival requires the selection of which generic strategy to follow.

6.4 Summary

The landscape in the sector has permanently shifted and it is up to the IOCs to take advantage of that shift. IOCs have to develop structures that are efficient and enable them to compete against MNOCs on all fronts. The economic and political changes facing the country should be viewed as temporary and IOCs should plan for their future in the sector. The present or any future Government can not backtrack on the policy of indigenisation given the history of this country. IOCs to carve out market niches for themselves and this can only be achieved by fully exploiting the current policies that are skewed in their favour have to take full advantage.

6.5 Areas for further research

A major constraint faced by the researcher in conducting this research was the unavailability of information of relevant information. Resource centres such as the Ministry of Energy did not have any information that the researcher could utilise in this research. There is a clear need for empirical studies to be conducted in this sector in order to determine the appropriate structure and how Government can assist in the development of formidable indigenous oil companies. Studies should be conducted into the level of activity within the industry and these studies should be used to guide the creation of Government policies. The Ministry should enforce the collection of statistical information from the sector and collate and publish this information for the benefit of potential investors. It is currently very difficult to obtain any statistical information on the sector and hence one has to work with estimated figures.

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APPENDIX A : QUESTIONNAIRE

SECTION A

This questionnaire consists of three sections. Kindly answer all sections.

A. BACKGROUND

1. How long has your organisation been in the oil industry?
a) Less than a year ☐
b) 1-3 years ☐
c) Over 3 years ☐

2) How many outlets do you operate?
a) 0 – 5 ☐
b) 5-10 ☐
c) above 10 ☐

3) In which provinces do you have retail outlets? (Please tick appropriate provinces)
a) Mashonaland ☐
b) Matebeleland ☐
c) Masvingo ☐
d) Manicaland ☐
e) Midlands ☐

4) Who are the major shareholders in the company?
a) Indigenous Zimbabweans ☐
b) Foreigners ☐
c) Local Corporations ☐
d) International Corporations ☐

5) How long have you been employed by the company
a) Less than a year ☐
b) One to three years ☐
c) Above three years ☐

6) How many employees does your company employ?
a) 0 -10 ☐
b) 11 -20 ☐
c) 21- 30 ☐
d) 31 -40 ☐
e) 41 + ☐

B.REGULATORY ENVIRONMENT

7) Is the regulatory environment conducive for your operations YES/ NO

8) If answer to above is No, Please explain why

....

....

9) Which policies affect your organisation the most?
a) Economic ☐
b) Political ☐

10) What role do you play in the regulation of your industry?
a) None ☐
b) Some (Please explain how below) ☐

....

11) How has your organisation benefited from the deregulation of the sector?

....

12) Will the Petroleum Act benefit the industry? (If yes please explain further)

....

13) What regulations have not been enacted that are necessary in the sector?

....

14) What are the expected benefits of deregulation .Select from below?
a) Lower Prices ☐
b) Improvement in Service Quality ☐
c) Technological Change ☐
d) Employment Creation ☐

15) Are there any other benefits of deregulation?

....

16) What are the disadvantages of deregulation?
a) Reduction in profits ☐
b) Reduction in wages and employment ☐

17) Are there any other disadvantages of deregulation?

C. STRATEGY

18) Where do you source your fuel?
a) South Africa ☐
b) Mozambique ☐
c) Middle East ☐
d) Other (specify) ☐

19) Who are your major competitors in your industry?

....

20) What is your pricing strategy?
a) To offer the lowest prices to customers ☐
b) To maximise Profits ☐
c) To provide a service irrespective of pricing? ☐
d) Cost recovery + margin ☐

21) How are your operations funded?
a) Own Resources ☐
b) Local banks ☐
c) Foreign Banks ☐
d) Credit Lines ☐
e) Other (Explain) ☐

22) How much stock cover (if any) do you hold?
a) 0- 7 days ☐
b) 7 – 14 days ☐
c) 14 – 21 days ☐
d) 21+ ☐
e) None of the above ☐

23) How do you distribute your products?
a) Own transport ☐
b) Hired transport ☐
c) Customer collections ☐

24) What are your competitive strategies?

....

25) How can you become more competitive?

a) Against other indigenous oil companies

....

b) Against the major oil companies

....

26) What is the role of the Major Oil companies

a) Today?

....

b) In the future?

....

27) What constraints do you face as an indigenous oil company?

....

28) What is your vision of the future landscape of the sector?

....

29) How is the petroleum sector specifically affected by the political and economic challenges facing the country?

....

30) Are you a member of any group that lobbies legislators on your behalf? If Yes state name of group and its purpose

....

31) The bulk of my customers are

a) Bulk ☐

b) Retail ☐

32) What recommendations can you make to the legislators to improve the sector?

....

Thank you for your time.