IMPACT OF GOVERNMENT POLICY INTERVENTIONS ON THE SURVIVAL STRATEGIES BEING IMPLEMENTED BY COMPANIES IN THE PETROLEUM SECTOR IN ZIMBABWE

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ABSTRACT

Petroleum firms around the globe are faced with an unpredictable operating environment as a result of government policy interventions. This paper's aim was to determine the impact of government policy interventions on the survival strategies being implemented by companies in the petroleum sector in Zimbabwe. The study used the observation method to collect and analyse observed market activities. The observation method enabled the researcher to examine the research phenomena and ensured that the researcher did not only rely on views of respondents, but was able to discover important aspects about respondents through observation. The findings of this study reveal that petroleum firms in both developed and developing economies are operating in turbulent economies that are influenced mostly by governments through high regulations, political controls and interventions in the operation of petroleum firms. This has caused uncertainty to operations of petroleum companies. Petroleum firms are surviving by constantly scanning the environment to understand the changes that are taking place and ensuring that their business strategies take these changes into account.

Keywords: Policy Interventions, Petroleum Industry, Turbulent Environment.

INTRODUCTION

Petroleum companies are a necessity to the functioning of any economy as they provide the drive to oil the movement of goods and humans. As such, many governments tend to intervene in the industry for the benefit of oil companies and the general public. However, some of the interventions may be excessive and they can negatively affect the smooth functioning of firms in the oil sector.

In Zimbabwe, petroleum firms are faced with an unpredictable operating environment. The country is landlocked and depends on imports for all its fuel requirements. The petroleum industry plays a strategic role to the economy of the country hence the move by the government to control the sector through various policy interventions. From independence in 1980 to 2008, the government controlled the importation, storage, distribution and the pricing of petroleum products through Acts of Parliament. The government deregulated the petroleum sector in 2011 and allowed more players to import fuel using their own resources. The country commonly uses the Beira Port in Mozambique for fuel imports. Most of the fuel from Mozambique is transported through the pipeline to Msasa in Harare. Some fuel also come through South Africa's ports and is transported over land with rail transport accounting for 55% and road 45%. This study was therefore aimed at exploring the various policy interventions that the government is putting in place and their impact on the strategies that petroleum companies in Zimbabwe are using to survive.

BACKGROUND

Petroleum firms in Zimbabwe are facing challenges brought about by government policy intervention on the transportation of fuel through the pipeline and taxes that are levied on the product (Bimha and Dumbu, 2018). The supply chain in Zimbabwe is weak as a result of opaqueness of the sector's operations. In particular, big players in the sector are reluctant to cooperate and coordinate their activities across the supply chain with small players (Bimha, Hoque and Munapo, 2017). There are also claims by fuel sector players of government giving preferences to big oil firms over small companies in the allocation of foreign currency to import fuel (Bimha and Dumbu, 2018). This continued interference by the government affects operations of petroleum companies and therefore calls for survival strategies by firms in this sector. These challenges have resulted in some foreign related oil companies closing operations in Zimbabwe as they failed to cope with the prevailing environment. This study therefore, sought to establish the impact that the various government policy interventions have on the strategies that oil companies are deploying to ensure survival.

OBJECTIVE

The objective of the study was to determine the impact of government policy interventions to the survival strategies being implemented by companies in the petroleum sector.

THEORETICAL REVIEW

Studies carried out show that regulatory agencies have several reasons why they decide to be involved in the regulation of activities of petroleum firms. Economic Theories of Regulation which relies on coercive power is used by governments in market economies where the government do not have a direct role (Muthini et al., 2017). Economic regulation is attained by directing the market structure and behaviour through price controls, rules against advertising and prescribing minimum quality standards. On the other hand, Public Interest Theory is used by government with the aim of overcoming the disadvantages of imperfect competition, unbalanced market operation, and undesirable market results to guarantee quality and avail competitively priced and sufficient supply of petroleum products on the market (PWC, 2018).

The Free Market Economic Model is used where there is less government intervention in economic activities and hence it relies on free market equilibrium to encourage efficiency and the attainment of society interest. However, due to market failure in the allocation of resources, increased government participation has been witnessed especially in developing economies through nationalizing industries and public investment programs resulting in oligopolistic or monopolies in the sector (Ackah and Mohammed, 2018).
This research settled for the Economic Theories of Regulation because it is very pertinent to operations of petroleum companies in Zimbabwe where the government regulate and intervene in the market though price controls, increasing taxes and penalising companies when they are deemed to have misbehaved. The operating environment in Zimbabwe is heavily regulated although to some extend the exercise of deregulation has been talked about on paper in line with a free regulating market that the government is pursuing.

Influence of government regulations on company strategy and performance

According to the reviewed literature, a firm's external environment which includes political, economic and legal factors is a source of uncertainty because the firm cannot control these external environmental influences (Marcel and Mitchell, 2006). Although this is the case, Habib (2011) suggested that firms have to adapt to this external environment by ensuring that their business strategies take this into account. Whittington (2001) also added that firms especially those operating in unstable environments should put more effort in scanning and forecasting the environment in order to understand the changes that will be taking place.

Several authors concur that the petroleum sector is a highly globalized industry as oil is demanded in entirely all sectors of the world economy (Hussain *et al*., 2006; Marcel and Mitchell, 2006). Hussain *et al*. (2006) further added that the oil sector faces high regulation, price instability and heavy political control due to the interdependency of other sectors on the petroleum sector. In view of this, governments around the world regards this sector as a strategic one hence their continued interest through regulations and legislation. This is supported by assertions by Marcel and Mitchell (2006) who submitted that governments have given themselves some form of cartel power over the fuel industry due to the regulations they continue to put on the sector. Porter (2008) views the policies and regulations that are put by governments as barriers that discourage new firms from entering the sector.

a. Government Pricing Policies

According to the literature reviewed, the pricing policies in the fuel sector can have a huge impact on the supply efficiency of the sector (Habib, 2011). For instance, fuel price controls may result in petroleum firms incurring losses when the price pegged by the government fails to take into account fluctuations in international prices. In situations where the government subsidise fuel, Habib (2011) observed that some firms that are guaranteed a purchase price through a subsidy formula may still pursue a business strategy of cost minimization. OPEC (2005) noted that the real objective of such firms may be to maintain surplus profits rather than to lower end-user prices to become more competitive. In this case, the efficiency gains are not passed onto consumers. On the other hand, in situations where the government imposes price ceilings in a subsidized price regime but the petroleum firms do not get reimbursement of the subsidies on time, the petroleum firms will suffer losses and fail to improve or expand their operations (OPEC, 2005). Also, constant government intervention in pricing to shield consumers from price instability on the world market cause petroleum firms to end up having unpredictable pricing policies that can affect the retention of experienced and efficient operators (OPEC, 2005).

The petroleum sector is also the most severely taxed sectors in most countries (Habib, 2011). This is corroborated by OPEC (2005) who noted that taxation has an effect on the dynamics of supply and demand of fuel since it has an effect of pushing the price up thereby affecting the final consumer. In the downstream oil sector, OPEC (2005) noticed that most industrialized countries levy substantial consumption taxes on top of the taxes on crude oil (OPEC, 2005).

Oil firms in Zimbabwe face high taxation problems (Zuva, 2013). As observed by Habib (2011), oil firms that are faced with excessive duties and high pipeline fees are forced to engage in unlawful practices in order to survive. This was corroborated by ZERA (2015) who noted that a total of 72 petroleum firms were prosecuted for retailing fuel that was not properly blended as stipulated in terms of the Mandatory Blending of Anhydrous Ethanol with Unleaded Petrol.

b. Regulation and deregulation of the oil industry

Okarah & Emeka (2015) observed that it is impossible for the petroleum sector to develop its business strategies independent of governments where they operate. What is worrying however is that most government policies are created by political processes that do not normally produce rational outcomes (Okarah & Emeka, 2015). As a result, petroleum firms face frequent challenges from both the political expectations and market demands making their operating environment very volatile hence the need for dynamic business strategies (Marcel and Mitchell, 2006). This was substantiated by a PWC (2018) report which observed that the petroleum industry across the African continent is faced with an uncertain regulatory framework which has seriously subdued the sector's development. Regulation and deregulation of the sector is one of the ways which most governments use to further their political interests and has affected the smooth operations of firms in this sector (Okarah & Emeka, 2015). Consequently, a number of Multinational Oil Marketing Companies have or are in the course of moving out of the African market (Africa Refinery Association (ARA), 2011). BP Africa which has been operating in most African countries has decided to exit from Tanzania, Malawi, Botswana, Namibia, Zambia and Zimbabwe markets (ARA, 2011). The disengagement process by the big multinational oil firms has given room for regional and national companies to enter the market (Africa Centre for Energy Policy, 2017). While this is good for the local economies, the energy sector and in particular petroleum products are affected by world events that require firms to compete on a global scale which small oil firms are unable to do (Clark, 2005). The sector regulations are therefore deterring the retention or entry of experienced operators who have capacity and are able to adhere to high standards.

The de-regulation of the petroleum sector in Zimbabwe in 2003 caused the rapid increase in oil firms (Zuva, 2013). However, although this Government policy has influenced the level of competition in the sector, there has not been an improvement in the availability and affordability of fuel on the market (Zuva, 2013). The assertions by Zuva (2013) are in sync with Habib (2011) who expressed the view that the control of the oil sector has shifted to the global market hence it is futile for governments to continue to employ legislative and other control measures to the oil industry. Ackah and Mohammed (2018) also added that governments' interference in the present fuel industry system is misdirected because it affects the availability and price of petroleum products.

c. Regulation and Enforcement

The World Bank (2010) observed that insufficient regulation and enforcement in the fuel sector can affect the efficiency of fuel supply to customers. In line with this, the World Bank supports a situation where the downstream petroleum sector should have predictable legislation that clearly outlines and restricts the role of the government to avoid unjustifiable meddling in the sector. At the same time, the legislation should clearly define the principles and rules that govern the private and public participants in the fuel supply chain to create a level playing field that encourage impartial, transparent and healthy competition (Ackah and Mohammed, 2018). Complex regulations coupled with regulatory uncertainty are seen as affecting the development of the petroleum industry in many African countries. Based on this problem, some multinational oil firms are exiting African oil markets due to complex and uncertain regulations (PWC, 2018).

The Zimbabwean petroleum industry regulatory framework does not give clear policy guidelines, responsibilities and accountabilities especially in the supply chain (Bimha, 2017). This destroys investment confidence in the sector and negatively affects the volumes of fuel imported into the country. The current laws also breed monopolistic tendencies. For example, in Zimbabwe the government introduced the mandatory blending of unleaded petrol with ethanol in 2013 to follow international practice of working towards decreasing engine exhaust fumes and dependence on fossil fuels. However, the regulations governing mandatory blending of fuel in their current form require all fuel imported into Zimbabwe to be blended only with ethanol from Green Fuel. Such a move by government is in direct conflict with the promotion of effective competition between firms operating in the petroleum industry as required by the Petroleum Act (Groenewald, 2013). Also, the fact that there is a joint-venture between Green Fuel and the Government directly restricts competition and creates a monopolistic situation in the mandatory blending of ethanol with unleaded petrol (Groenewald, 2013).

d. Government Intervention through liberalization

Liberalisation is believed by the World Bank (2010) to be a solution to the issues of high fuel prices to consumers. Subsequently, most governments in Africa have turned to liberalization of the petroleum sector as a strategy to solve the persistent problems associated with rising fuel prices and shortage of the commodity on the market. Available literature show that liberalization is being used by most governments to remove monopolies and unfair playing field in the sector (World Bank, 2010). This is in line with international experience which points to the importance of establishing fair, healthy, and transparent competition in the downstream petroleum sector (World Bank, 2010).

However, although most governments have embraced the liberalisation of the oil sector, results on the ground are pointing to the contrary. In Kenya as pointed out by Mwirichia (2008), liberalization of the fuel sector resulted in many players sprouting, creating stiff competition which triggered some big multinationals to move away from the market. In view of this, petroleum firms needed to deploy new business strategies to maintain their market share (Mwirichia, 2008). These observations tally with observations by Zuva (2013) who noted that Zimbabwe deregulated its petroleum industry to allow the coming in of new players into the importation and wholesaling of fuel in 2010. However, the deregulation resulted in temporary improvement in the price and availability of petroleum products. The findings by Zuva (2013) are also validated by Mashange (2002) who submitted that after the sector was liberalized, the Government of Zimbabwe has not initial reason for liberalisation. Mashange thinks that the petroleum industry in Zimbabwe has not advanced the initial reasons of deregulating the sector as the government continues to intervene through the pegging of prices of the commodity (Newsday, 14 January 2019). However, although oil firms continue to experience changes in legislation in various countries, there is need for the firms to put in place business strategies that enable them to survive (PWC, 2015).

e. Government intervention in the oil industry supply chain

The reviewed literature points to increased global competition which has stimulated the growth of Supply Chain Management (SCM) (Mittal, Agarwal & Selen, 2018). This is in agreement with Kotler and Armstrong (2008) who noted that most firms no longer compete solely as independent entities, but rather as supply chains. In light of this, the success of firms is now determined by the soundness of its supply (Mittal, Agarwal & Selen, 2018).

Although the use of supply chain management by companies is now prevalent, Babatunde *et al.* (2016) suggested that the supply chain of the petroleum industry is vastly inflexible as a result of the complex logistics network in the sector which arises from the production capabilities of crude oil suppliers and long transportation lead times. As a result, every single point in the supply chain symbolises a serious challenge to petroleum firms. However, Babatunde *et al*. (2016) thinks that if petroleum companies are to embrace supply chain management strategy and improve the supply chain management processes, this will give competitive advantage and survival options to firms. In addition, PWC (2015) thinks that for supply chain management to work in the oil industry, firms need to integrate all their processes from procurement to the delivery of the final product to cut the cost of purchasing oil products which will eventually reflect in the final prices that consumers pay (Babatunde *et al*., 2016).

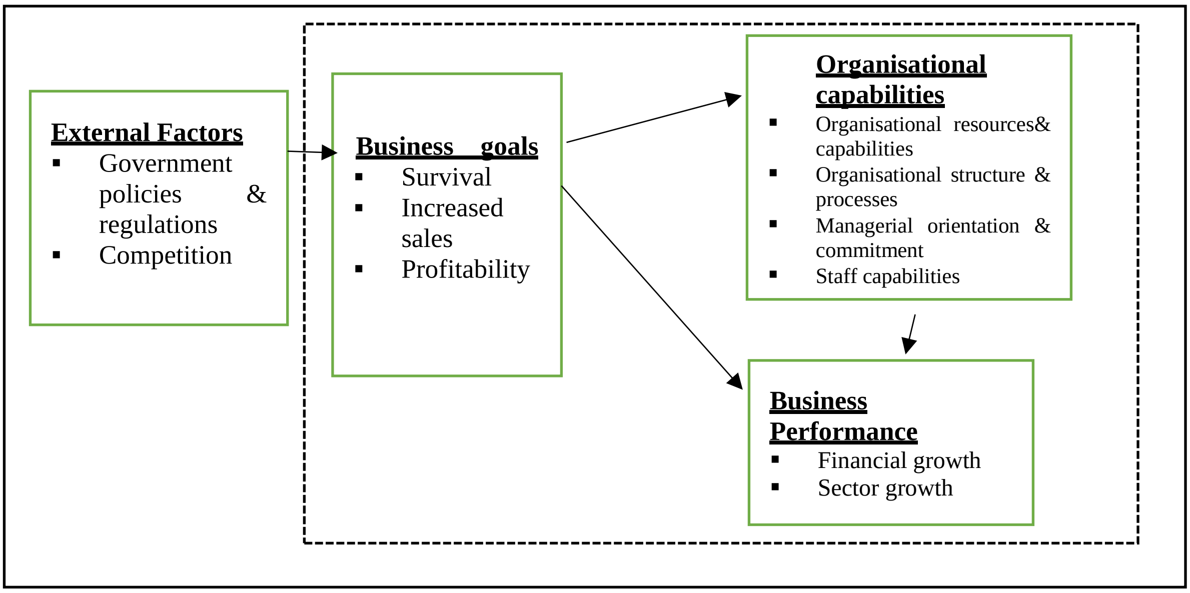
On the hand, Osoro (2015) advanced the impression that the supply chain management strategy in the petroleum industry will not succeed in the developing economies because of stringent government controls in the sector's operations and political risk associated with frequent changes in laws and regulations that govern the sector. Kimani (2013) also sighted differences in organisational culture, poor business processes, the opaqueness and lack of transparency among petroleum sector players as the main challenges that hinders the success of supply chain management as a strategy. This was corroborated by Kotzab *et al*. (2011) who pointed out that supply chain partnership is grounded on reciprocal trust and confidence among members. The lack of collaboration in the supply chain have resulted in firms losing the chance to save costs (Young, 2005).

In Zimbabwe however, the impact of government intervention in the supply chain in the petroleum sector needs further research. Available researches show that the government has not helped firms in the sector to benefit from the fuel supply chain (Bimha *et al*. (2017). The reviewed literature show that the government has encouraged the creation of monopolies in the sector by allowing big oil companies to have unfair advantage over smaller players. In this regard, opacity in the sector which the government has failed to tame has affected this sector's competitiveness as the big players in the petroleum sector in Zimbabwean are unwilling to cooperate and coordinate their activities across the supply chain with small players (Bimha and Dumbu, 2018).

CONCEPTUAL FRAMEWORK

The conceptual framework for this study provided a foundation for reviewing how the government policy interventions in the petroleum sector are affecting strategies of oil firms. This conceptual framework explains the relationship that was assumed by the study to result in a positive effect on the performance outcomes of petroleum companies as explained shown in figure 1 below:

Figure 1: Conceptual Framework



According to this conceptual framework, a firm will be able to achieve its desired goals if it is supported by an enabling operating environment that is supported by good government policies.

Following this conceptual framework, government policies are the independent variable that affects the performance of the petroleum companies while firm growth is the dependent variable. The internal environment and the macro-operating environment are the moderating variables that affect how oil firms will perform. Consequently, when good government policy interventions are crafted and implemented and organisational capabilities are exploited in a supportive operating environment, company growth will be witnessed and, in the end, national economic growth will be experienced.

METHODOLOGY

The study assumed the observation method where theoretical data was collected and analysis of observed market activities were carried out. Observation according to Savage (2000) is an orderly data collection method whereby the researcher use all of their senses to study people in their natural settings. Observation enables the researcher to examine the research phenomena in context and situate the researcher in the research settings (Bryman, 2012). Observational research ensured that the researcher did not only rely on perceptions, understandings and accounts of respondents, but was able to discover important aspects about respondents through observation (Bryman, 2012).

The observation method was appropriate for this research as it helped the researcher in establishing relationships among events and in locating the causes behind them (DeWalt & DeWalt T, 2002). In particular, the purpose of employing the observational research was to gather reliable insights and capture data on what firms do as oppose to what they say they do in dealing with government policy interventions to survive. This helped the researcher to identify and be in a position to be able to classify regular from irregular activities, and establish disparities between viewpoints by observing the events in their entirety and them detect exceptions (DeWalt & DeWalt, 2002). Some of the benefits derived from using the observation method as corroborated by Wolcott (2001) include that the researcher was able to:

- understand the how and what of the research question;
- get robust data to explain respondents' behaviour;
- gain understanding of behaviour of respondents in a natural setting;
- gain more information about the research question and help formulate a more complete and accurate research;
- have direct contact with the research phenomena and gave him high levels of flexibility in terms of data gathering;

Have a good level of involvement with participants which led to a good rapport that encouraged participants to express themselves freely thereby contributing to the collection of rich data (DeWalt & DeWalt, 2002).

The observation method used provided the researcher with qualitative data that afforded him a rich and complete representation and in depth descriptive accounts about the survival strategies that petroleum firms are employing to counter the negative impact of government policy interventions in the fuel sector. The researcher was able to establish why company executives behave in certain ways including their feelings about those actions by recording attitudes and feelings which helped to expose new subject areas not initially considered (Bryman, 2012).

The targeted population for this research comprised all the fifty-six petroleum importing companies in Zimbabwe that are listed on the Zimbabwe Energy Regulatory Authority (ZERA) database.
Purposive sampling was used to select respondents from the sampled petroleum companies. In particular, senior executives who are responsible for business strategy in the petroleum firms were targeted as respondents for this research because they were well versed with the issues to do with survival strategies being implemented by firms in response to government policy interventions. This is in agreement with assertions by Bryman and Bell (2015) who noted that in purposive sampling, individuals can be chosen because they hold particular data needed for a specific study. Equally, in purposive sampling, participants are chosen intentionally according to a predetermined criteria making it less costly and directed to the study goals (Barratt et al, 2014). This selection criterion allowed the researcher to get information quickly and efficiently. This is in line with observations by Robson (2011) who opined that researcher use purposive sampling to reach more participants, who are information rich and knowledgeable about the research topic.

DISCUSSIONS

In line with the main objective of the study which was to establish the impact of government intervention on the strategies being put in place by petroleum companies, the reviewed literature show that that petroleum firms are mainly affected by political and legal regulations that are put in place by the various governments where the firms operate (Habib, 2011). These government interventions are viewed as a source of uncertainty because the petroleum firms cannot control these external government influences hence their business strategies should take these outside influences into account. As noted by several authors, the oil sector especially in the downstream sub-sector of the industry face high regulation and heavy political control due to the importance that governments place on the sector (Hussain et al., 2006; Marcel and Mitchell, 2006).

In line with the research objective, the results from literature reviewed also suggest that petroleum companies in Zimbabwe face high taxation problems and the industry's regulatory framework have faced frequent changes which have resulted in lack of industry competitiveness due to the continued interventions by government through legislative and other control measure (Zuva, 2013). The available information however does not reveal the impact that the government policy interventions have to the survival strategies being put in place by companies operating in this sector. This research intended to cover this gap and contribute to the available literature.

CONCLUSIONS

In this research study, the researcher looked at how government policy interventions in the petroleum sector impacted the survival strategies being implemented by companies in the petroleum sector. Following the examination of the available literature and background to the study, the researcher established that petroleum firms in both developed and developing economies are operating in turbulent economies that are influenced mostly by governments through high regulations, political controls and interventions in the operation of petroleum firms. However, information on the impact of government policies on the strategies being adopted by oil companies in Zimbabwe in the volatile economic environment is not available. This research intended to explore how the Zimbabwean petroleum firms are being impacted by the various government policies and in the process add to the available literature on this subject.

RECOMMENDATIONS

i. Government representatives in the petroleum sector and other important participants ought to toil and ensure that there is strong political will to back the governance system put in place by the state to regulate the oil sector.
ii. Checks and balances are needed for ensuring public accountability in the regulation of the fuel sector through audits of government agencies in the sector. The audit recommendations should be genuinely acted upon and the information disclosed to the public as soon as it is available.
iii. The Government should also assume and incentivize oil firms and stakeholders so that the sector players are motivated to comply to regulations and also aim for higher operating standards within the oil sector.
iv. Although the Government should maintain its independence when crafting regulations and policies, it should also get the input of oil companies who are an important stakeholder

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