Effects of Turbulent Environments on Business Strategies: A Case of Zimbabwe's Petroleum Industry.

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Abstract

The purpose of this paper was to explore the business strategies that petroleum firms in Zimbabwe are using in the face of the turbulent operating environment. The aim of the study was to find out the competitive strategies being adopted and implemented by oil firms for survival. Other objectives were to establish how the strategies being executed by the oil companies were influencing sales revenues, profitability, and survival of companies in the sector and also to determine how government policy interventions are impacting the deployment of the strategies. And to recommend strategies that can be adopted by the petroleum firms during unstable economic environments. The research used an exploratory-sequential mixed methods research design where qualitative and quantitative data were collected separately. Findings from interviews were used to provide a basis for the collection of a second set of data using questionnaires. The research findings reveal that petroleum businesses face high regulation, price instability and heavy political control due to the strategic nature of the oil sector to the Zimbabwe government. The issue of high taxation and frequent changes to regulations in the sector are the main causes of uncertainty to operations of these firms. The research findings indicate that most petroleum companies in Zimbabwe are using the Cost Leadership Strategy for competitive advantage and survival.

Key Words: Survival Strategies, Petroleum Industry, Unstable Environment.

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1.0 Introduction

Companies today are operating in an increasingly unstable and tough environment because of fast changing technology, political and social forces. This has brought threats and opportunities to the operations of businesses compelling them to find strategies for their survival. The petroleum industry in Zimbabwean is facing a similar situation where the operating environment is unpredictable and fast changing necessitating firms to focus on the use of strategic management as a survival tool to better comprehend the environment around them (Wheelen and Hunger, 2008). Companies in the fuel business are subsequently using technology and constant innovation supported by the development of superior quality products to subsist in the turbulent economic environment (Wheelen & Hunger, 2008). This study was thus designed to explore the business strategies that petroleum companies in Zimbabwe are using to survive the volatile operating environment.

1.1 Background

The Zimbabwe fuel sector falls under the Ministry of Energy and Power Development and is regulated by the Zimbabwe Energy Regulatory Authority (ZERA) which monitor the acquisition, pricing, and marketing of fuel. The sector is comprised of big corporations with international links, big indigenous companies, Government owned, medium scale indigenous and small-scale fuel firms. The responsibility of managing the transportation of imported petroleum products is by the National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd (NOIC) which is a government parastatal. The transportation of petroleum products in Zimbabwe is mostly through the pipeline from Beira in Mozambique to Msasa depot in Harare.

The bulk of fuel suppliers on the Zimbabwe market are finding it difficult to consistently provide fuel on the market because of the current monitoring and price regulations on fuel products by the government (World Bank, 2019). This is evidenced by unpredictable supplies and growing discontent from consumers who feel the petrol and diesel being supplier are of inferior quality (Bimha et al., 2019). Related to this, petroleum firms are no longer able to maintain their traditional loyal customers which they used as a source of competitive advantage in the past.

Similarly, Zimbabwean petroleum companies are having to endure government policy changes and excessive duties on imported fuel products (Bimha & Dumbu, 2018). On the other hand, the sector is surrounded by opaqueness with the big firms refusing to collaborate with smaller ones thereby negatively affecting the fuel supply chain (Bimha and Dumbu, 2018). The persistent meddling by the government in the industry is negatively impacting operations of petroleum firms and for that reason this calls for survival strategies by businesses in this sector. This study thus, sought to evaluate the survival strategies that firms in the sector are employing to ensure profitability, better market share and guarantee survival of the businesses.

1.2 Objectives

The main aim of this paper was to find out the strategies that businesses in the petroleum sector are embracing to remain viable in the existing volatile operating environment in Zimbabwe. The research also aimed to;

i. affirm how government policy interventions impact the profitability and viability of oil companies.
ii. determine how the strategies being employed by oil firms are affecting the profitability and survival of enterprises in the sector.

2.0 Theoretical Review

Researchers agree that an unstable business environment disregards the fundamental rules of traditional strategic planning which apply mostly when the industry structures are stable (Mufudza, 2018). This consequently compelled this research to consider several strategic management theories suitable for use in this study. In particular, opinions for example on Porter's Five Forces model and the Resource Based View (RBV) of the firm were considered but were seen as unsuitable for use in this study as they are best useful in stable business environments. The arguments against these theories are that it becomes complicated to assess for example buyer, supplier, and rivalry power of firms in volatile situations as industries' boundaries become distorted and difficult to define in volatile environments. At the same time, the volatile environment makes the key assumptions of the RBV theory not to be applicable as factor markets appear to be in constant disruption due to issues such as innovation.

Given this background, the dynamic capabilities theory was considered as appropriate for use by companies operating in unstable situations (Luo, 2013). It was thus very relevant to apply this theory in the current study where enterprises in the petroleum industry in Zimbabwe are operating in an unstable environment. This theory was used in this research to define the suitable business strategies for the difficult, rapidly changing market in the oil sector in Zimbabwe by borrowing from its successful application in the volatile upstream oil sector in developed economies (Wernerfelt, 2014). This study feels that the same success can be simulated in the downstream oil sector where Zimbabwe's petroleum industry is found. In view of that, the use of this theory can empower managers to be able to figure out how resources can be apportioned in the oil sector in Zimbabwe by detecting those dynamic capabilities that if harnessed may help firms in the sector to come up with survival strategies (Luo, 2013). In this study, the theory was relied upon to inspect and spell out the resources and capabilities of oil firms that could produce and endure the firm's advantage in the volatile operating environment in Zimbabwe.

2.1 Strategies in use in the petroleum industry

Available literature shows that firms can understand the environment around them if they have in place vibrant business strategies to achieve competitive advantage (Wheelen & Hunger, 2008). Accordingly, oil firms all over the world are using several strategies for competitive advantage (Wairegi, 2009).

According to Schweitzer et al. (2011), mergers, acquisitions and alliances are practical strategies used by oil firms to fulfil the increased fuel demands and counter the persistent interference by governments in the pricing of fuel. Some of the oil firms that have successfully applied these strategies include Exxon Mobil who merged with Mobil in 1999, BP petroleum company which merged with is a merger of British Petroleum, Amoco and Arco and Royal Dutch Shell which was a result of the merger of the Royal Dutch Petroleum Company and Shell Trading and Transport Company (Yargin, 2008). Mergers and strategic alliances in the sited cases enabled the firms to harness their individual strengths and overcome individual firm inadequacies (Chepkwony, 2001).

Petroleum firms operating in volatile environments are using collaboration and information sharing (Richey et al., 2012) to integrate their economic, human, and technical resources to attain shared objectives (Cao et al., 2010). Oil firms in Nigeria have effectively cooperated in information sharing and this has improved business between the industry players, their suppliers and customers (Babatunde et al., 2016).

As explained by the World Bank (2010), the liberalisation strategy is being used in the oil industry by governments to eliminate monopolies and unfair trading in the sector. This augurs well with international expectations which encourages fair, healthy, and transparent competition in the downstream petroleum sector (World Bank, 2010). This strategy was used in Kenya causing many new players to join the sector but also resulted in stiff competition in the sector prompting some big multinationals to exit the market (Babatunde et al., 2016).

2.2 Business strategies and company operations in the petroleum industry

Butler et al. (2011) alluded to the fact that firms must be able to regulate their performance especially in unstable environments to enable them to react well and acclimatize promptly to variations in the business environment. In line with this, managers are expected to institute appropriate analysis of their financial, market and shareholder value performance to assist their firms to adjust and survive the changing environment (Livohi, 2012).

According to reviewed literature, firms in the oil sector are using performance measurement to gauge operations of oil firms (By accumulating data, analysing and reporting it to guarantee that adequate business decisions are made (Livohi, 2012). Babatunde et al. (2016) recommended the use of financial performance, market share performance and capacity performance to conduct performance measurement of firms in the oil sector. Nevertheless, other researchers feel that oil firms can measure their performance by assessing how the firm is guiding its management processes, client coordination, and information technology application (Mutua, 2012).

Evans and Lindsay (2011) feel that the profitability of businesses is a necessary factor for survival of firms for long periods and is affected by the firm's market share in the industry where it operates. Therefore, corporates that control a large market share are believed to possess the capacity to perform better than their competitors hence they also have heightened chances to survive volatile operating environments (Evans & Lindsay, 2011). In line with this, Chandler and McEnvoy (2000) revealed that the size of a firm's market share and its growth rate increase the prospect of survival of firms. Nonetheless, though the market share plays a big role in influencing good performance, it should also be supported by a quality management strategy to aid the improvement of firm efficiency (Evans & Lindsay, 2011). This is very key for this study as the research sought to find out how the petroleum firms in Zimbabwe were using business strategies to survive in the unpredictable economic environment in view of their market share.

3.0 Methodology

This research study used the mixed methods research methodology which involved the use of qualitative and quantitative methods consecutively. Qualitative and quantitative data were gathered at different stages, but qualitative data collection had priority (Saunders et al., 2012). The qualitative aspect of the study was done by use of personal interviews of petroleum firm executives while the quantitative data was collected using questionnaires.

The use of the mixed methods allowed the researcher to gather and integrate qualitative and quantitative data thereby benefiting from the strength of both approaches. This increased the reliability and validity of the research findings as the two approaches can be effective when used in combination (Creswell, 2014).

3.1 Qualitative data collection

In-depth interviews were used to assemble detailed qualitative data. The researcher used an interview guide which guaranteed constant management of themes in each interview session thereby lessening bias (Burnay et al., 2014). The sample size for qualitative data gathering was seven senior executives of the petroleum importing firms in Zimbabwe. The researcher used purposive sampling to select interview participants (Maree, 2016). The selection of companies to participate in the study was based on the company size in terms of its presence in the market.

Purposive sampling was also used to choose respondents from the sampled petroleum companies and targeted senior executives who understood the issues of business strategies which was the focus of this study (Bryman & Bell, 2015). Purposive sampling permitted the researcher to gather information fast and efficiently (Bryman & Bell, 2015).

3.2 Quantitative data collection

Quantitative data was gathered using questionnaires which were designed by considering results from interviews which informed the questionnaires design. Questionnaires permitted respondents to record their responses to questions inside defined choices (Sekaran & Bougie, 2009). Questionnaires were appropriate for this study as they were less costly to administer. Senior Managers responsible for business strategy at the fifty-six petroleum importing companies in Zimbabwe were selected through purposive sampling technique to answer the questionnaires.

4.0 Ethical Considerations

Kaye *et al.* (2015) noted that it is the duty of every researcher to ensure that all participants are educated on the hazards and benefits of taking part in the research. Kaye *et al.* (2015) further suggested that all studies should seek informed consent and underscore the voluntary nature of respondent's involvement. This study took all the necessary steps to ensure that all the selected participants were given a letter of invitation which gave details of the purpose and nature of the study. The letter of invitation contained a consent form that explained to the participants the risks associated with participating in the research, the aim of the study and the procedures and processes to be followed during the research. The consent form also explained the voluntary nature of taking part in the research and how privacy and confidentiality issues would be handled.

5.0 Findings

Qualitative results from interviews carried out show that all the participants' companies are being adversely affected by the current unstable operating environment. All the participants pointed out that their firms are using the cost leadership business strategy to endure the tough and volatile operating environment. The participants indicated that the use of the cost leadership strategy has aided their businesses to reduce their operating costs. On the other hand, six of the interviewed participants indicated that their companies have witnessed increasing revenues from the sale of petroleum products, but this has not translated to increase in profits due to continuing increasing operating costs.

The interview results confirm that government policy interventions are negatively affecting their business strategies and are hindering new entrants into the sector. All the interview respondents feel that the existing operating environment require petroleum firms to work on cost containment to survive.

The quantitative results (Table 1) show that 99.1 % of the participants' firms are being adversely affected by the unstable operating environment whereas 0.9% specified that the current operating environment is good for their businesses' operations. The results imply that the present operating environment in Zimbabwe is negatively affecting the long-term plans of fuel firms. This is badly affecting how petroleum companies can prioritise their goals and compete effectively in the market to improve their performance.

Table 1: How petroleum firms are being affected by the current unstable economic operating environment

	Frequency	Percent
Negatively	106	99.1
Positively	1	0.9
Total	107	100.0

The quantitative results as shown in Table 2 indicate that the three main business strategies being used by oil companies are the Cost Leadership strategy (68.7%), Differentiation strategy (19.1%) and the Focus Strategy (12.2%). The results signify that oil companies in Zimbabwe are putting most of their efforts in increasing efficiency and reducing operating costs by using the Cost Leadership Strategy. Nevertheless, the results also infer that a few firms still apply the Focus Strategy where they concentrate on a narrow part of the total market and Differentiation strategies.

Table 2: Strategies that petroleum firms are using in the current unstable environment.

		Responses	
		Number	Percent
Strategies being used in volatile environment to remain competitive	Cost leadership strategy	90	68.7%
	Differentiation strategy	25	19.1%
	Focus Strategy	16	12.2%
Total		131	100.0%

The results also show that in terms of whether the strategies being employed by oil firms are effective or not, the research results in Table 3 show that 20.6% of the participants strongly think that the strategies they are using are very effective while 70.1% agree that the strategies that their firms are using work for them. Conversely, 9.3% of the participants were neutral on the issue. The results submit that even though petroleum companies are operating in this undesirable environment, they are working hard to stay in business through cost minimization to survive.

Table 3: Effectiveness of the strategies being employed by petroleum firms.

	Frequency	Percent
Strongly Agree	22	20.6
Agree	75	70.1
Neutral	10	9.3
Total	107	100.0

The quantitative results (Table 4) also show that 28% of the respondents strongly think that the strategies being used by their firms are effective whereas 61% thinks that their strategies are suitable for the current unstable operating environment. Equally, 12% of the respondents stayed neutral on the issue. These results suggest that petroleum firms feel that they have been able to put in place strategies that match the existing tough operating environment as shown by their ability to continue supplying the market.

Table 4: Suitability of the strategies being employed to the volatile environment.

	Frequency	Percent
Strongly Agree	30	28
Agree	65	61
Neutral	12	11
Total	107	100.0

The mixed methods result revealed that the unstable operating environment have forced Zimbabwean petroleum firms to re-allocate their resources and capabilities to suit the environment to survive. This perspective which is consistent with the dynamic capabilities' theory views the firm's resources and dynamic capabilities as the basis for ensuring the survival and sustained innovativeness of the firm. According to both qualitative and quantitative findings, this approach has helped Zimbabwean petroleum firms to constantly adapt and survive in the evolving market conditions through reshaping the opportunities and threats that the firms are facing.

The result of the study also shows that petroleum industry in Zimbabwe is the most severely taxed sector. Taxes being levied on fuel has pushed the price of the product up causing some fuel companies to find other illegal means of survival such as false declaration of the product at the port of entry. Also, government policy interventions in the sector are very uncertain and are adversely affecting the deployment of long-term business strategies. Policy inconsistencies have also become a barrier to new entrants thus negatively affecting the fuel supply chain resulting in fuel pricing instability.

The research findings also revealed that the fuel sector in Zimbabwe lacks sufficient enforcement of regulations put in place by the government resulting in an unfair playing field and unhealthy competition in the sector. This according to the findings has ruined investment confidence and produced monopolies and cartels in the sector.

The findings further show that mandatory blending of petrol has affected customer loyalty and is contributing to inefficiencies in the sector. Further, the results show that the continued government intervention in the determination of prices of fuel has rendered the sector uncompetitive.

The results also revealed that Zimbabwean petroleum firms are managing to navigate the difficult operating environment by relying on their staff and managerial competencies which they must continue harnessing through re-training so that they can adapt to the changing environment. On the other hand, the petroleum firms expect the government to loosen its control on the sector, reduce taxes on petroleum products, and provide a supportive role through policy consistency to complement the efforts being put in place by oil.

6.0 Discussions

The main objective of the research was to establish the most effective strategies being adopted by companies in the petroleum sector in the volatile environment to remain competitive. The research results show that petroleum companies in Zimbabwe are mostly using the Cost Leadership Strategy to survive the volatile operating environment. Firms in Zimbabwe are adopting this strategy mainly because they do not have a leeway to influence the price that they charge on their petroleum products as this is done by the government. In view of this, firms put their focus on reducing costs to continue operating.

To sustain competitiveness using the Cost Leadership Strategy, petroleum firms in the country are mainly emphasising on installation of new technology that help to enhance efficiency and reduce costs through minimising errors in the supply chain. However, the use of this strategy has been observed to require capital, skills, and efficient distribution channels (Thompson et al., 2012). Research results show that indigenous oil companies are struggling in this regard as they complain that the distribution channels that are currently controlled by the government favours the big petroleum firms thereby putting them at a competitive disadvantage. The indigenous petroleum firms feel that the government should give them the leeway to control their entire value chain so that they can eliminate unnecessary and costly processes.

In line with the second objective of the study which was to establish how the strategies being implemented by petroleum firms in Zimbabwe are influencing sales revenues, profitability, market share and survival of companies in the petroleum sector, the research results show that petroleum firms have experienced an increase in sales volume but have witnessed a continued fall in profits over the years. This is mainly caused by increasing operating costs and low prices being charged for petroleum products. This situation has only helped firms in the sector to stay afloat without experiencing an increase in market share. These research findings are in tandem with Thompson et al. (2012) who posited that pricing policies in the fuel sector can have a huge impact on the supply efficiency and survival of firms in the sector.

The petroleum sector in Zimbabwe is severely taxed and this has influenced the dynamics of supply and demand of fuel (Zuva, 2013). As a result, some firms are being involved in product adulteration, over blending of petrol with ethanol and false declaration at the port of entry (ZIMRA, 2016). All this has led to lack of industry competitiveness which has negatively affected the profitability, market share and survival of companies in the sector.

7.0 Conclusion

This research looked at the business strategies that petroleum companies are using in the current unstable operating environment in Zimbabwe. The research established the strategies that companies in the petroleum sector are using to survive and remain competitive and how the strategies are influencing sales revenues, profitability, market share and survival of companies in the sector.

The research results show that petroleum firms in Zimbabwe are operating in a turbulent environment hence the need to employ proactive business strategies for survival. Zimbabwean petroleum firms are mainly using the Cost Leadership Strategy to survive the volatile environment through implementing cost containment strategies.

8.0 Recommendations

i. The Government of Zimbabwe should encourage the exchange of information with oil industry players to establish how costs can be reduced in the oil sector supply chain.

ii. the aims and possible mechanisms of regulations and policies that government intend to introduce in the sector should be clear to all players through genuine and transparent engagement with affected parties.

iii. The local petroleum sector policies should be regularly aligned with global trends by the government by accommodating the changing local circumstances.

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