University of Zimbabwe

THE IMPACT OF LINES OF CREDIT ON THE SURVIVAL AND GROWTH OF OIL COMPANIES IN ZIMBABWE

A dissertation submitted in partial fulfillment of the requirements for the Degree of Masters in Business Administration, Graduate School of Management, University of Zimbabwe.

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By

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DECLARATION

I, Tanaka Sikwila do hereby declare that this dissertation 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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Student's signature   Date

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Supervisor's signature   Date

ABSTRACT

The purpose of this study was to examine whether the unavailability of lines of credit has resulted in liquidity constraints within the oil industry which has affected their survival and growth. Studies done in other countries have suggested that liquidity constraint do affect the growth and survival of firms. However these studies have been done in other parts of the world, so the researcher's aim was to fill in this research gap by analyzing Zimbabwean oil companies.Empirical evidence for this study was gathered through direct face to face interviews of senor personnel of the chosen sample firms. Questioners with open ended questions were also used to get an in-depth knowledge of the area under study. The phenomenological approach was adopted in this study and the data gathered was analyzed using data displays and content analytic summary tables.

The study concluded that liquidity constraints are an important aspect in determining the growth and survival of oil companies in Zimbabwe. The study, however also revealed that other than liquidity constraints, the entrepreneurship skills of companies play an important role in ensuring growth and survival of firms. Other companies operating within the same liquidity constrained environment experienced phenomenal growth whilst others folded.

DEDICATIONS

I dedicate this project to my wife, my two sons Tanaka Keith, TamudaTryrell and my two daughters Thandeka Karen and Thandaza Nadine for the support they gave me.

ACKNOWLEDGEMENTS

My sincere gratitude goes to my academic supervisor Mr. R Mudala for the unwavering support, supervision and guidance he gave me throughout the preparation of this project. It would have been a mammoth task producing this dissertation without his constructive supervision.

I would like to thank all the participating oil companies and those managers that assisted in convincing their companies to participate in the research study.

I would like to express my heartfelt appreciation to my family, especially my wife, my sons and daughters who had to endure the period of limited attention from daddy; and to my friends, especially Prometheus Chiwara and Wilfred Matukeni for the moral support and valuable suggestions they gave me.

Lastly, I offer my regards and blessings to all those who supported me in any respect during the completion of this research study.

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LIST OF ABREVIATIONS

NOCZIM   National Oil Company of Zimbabwe

IINPETRO   Independent Petroleum Terminal

NOIC   National Oil Infrastructure Company of Zimbabwe

IPG   Independent Petroleum Group

EMA   Environmental Management Agency

ZERA   Zimbabwe Energy Regulatory Authority

L/C   Letter of Credit

FDI   Foreign Direct Investment

ICRG   International Country Risk Guide

CZI   Confederation of Zimbabwe Industries

NIEEB   National Indigenisation & Economic Empowerment Board

IMF   International Monetary Fund

GDP   Gross Domestic Product

EIB   European Investment Bank

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CHAPTER ONE: INTRODUCTION

1.0   Introductionto the study

This chapter introduces the research on the subject of the impact of lines of credit in the oil industry. It gives background information on the subject, statement of the problem, primary and secondary objectives, primary and secondary research questions and justification indicating the importance of the study. The unprecedented fuel shortages experienced in Zimbabwe during the period 2002 to 2003 and the subsequent deregulation of the oil industry resulted in the private players having to source for funds to import fuel with minimal government support. The chapter thus sets the context of the impact of credit lines in the oil industry in making fuel available to the motoring public.

1.1Background to the study

A number of measures were implemented in the oil industry in order to improve the accessibility of sufficient and consistent fuel supplies. One of the chiefmeasures was the deregulation of the oil industry which resulted in new players coming on board. Before this deregulation in 2003, NOCZIM was the sole importer of fuel in Zimbabwe. Multinational companies, BP and Shell, Mobile, Caltex and Total, would then purchase this fuel from NOCZIM for onward to the final user distribution throughout the country.

The government then restructured NOCZIM into two separate independent entities i.e.; Petrotrade (Pvt) Ltd and the National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd (NOIC) in 2010. Petrotrade is responsible for trading fuel in the market whilst NOIC is mandated with providing fuel logistics infrastructure to all registered oil importer for a fee. These two companiescommenced business during the first quarter of 2011. This opening up of the industry has meant that oil companies need to fend for themselves.

Zimbabwe imports all her fuel requirements. 90% of all fuel consumed is imported through the Beira pipeline, with 10% coming through the Beitbridge

Border post. This is according to ZIMRA statistics of all fuel cleared for consumption in Zimbabwe. The various fuel merchants selling fuel to Zimbabwe bring their shiploads of fuel into the Beira port. This fuel is then discharged into some Beira storage tanks situated at Beira. These storage terminals are owned by private players. At the moment there are 5 storage terminals at Beira, namely; - INPETRO, which is owned by NOIC, IPG (a fuel trader) and PETROMOC (the national oil company of Mozambique), TOTAL terminal, BP terminal, Glencore terminal and the Petrobeira terminal (which is owned by Trafigura and PETROMOC). It should be noted that these terminals are owned by fuel suppliers, except NOIC. Any other merchant which does not have a storage terminal at Beira has to pay throughput fees to the owners of the terminals. This way, the existing fuel merchants with storage terminals are able to cut competition. Fuel merchants have thus invested in storage facilities at Beira to service the Zimbabwean market and other African countries that take up product at Beira namely; Mozambique, Malawi, Zambia and the DRC.

Oil companies operating in Zimbabwe individually buy fuel either ex-tank Beira i.e. from merchants with product in tank at Beira or ex-ship i.e. direct from the vessel, then arrange for this fuel to be discharged into a storage terminal. Once the sale is in perfecta, this fuel is then pumped from these storage terminals by pipeline into Zimbabwe into NOIC tanks at Feruka or Msasa for uplifts by the various oil companies that would have procured the product.

The fuel business is volume based business, requiring high working capital to procure the required stocks for sale at either forecourts or to large corporate clients. Most large clients require credit terms. These activities thus require financing, first to acquire the product and secondly to finance credit terms. This is the quagmire that is faced virtually by all oil companies operating in Zimbabwe. Oil companies need financing in order to provide this vital strategic fuel to the nation.

1.1.1 The Oil Industry in Zimbabwe

Before the de-regulation of the oil industry in Zimbabwe in 2003, the sector had one supplier of petroleum products to the whole country i.e. the National Oil Company of Zimbabwe (NOCZIM). This company was wholly owned and funded by the government of Zimbabwe and was mandated to import all petroleum products into the country.NOCZIM would procure fuel using foreign currency provided by the government through the RBZ, and distribute petroleum products i.e. diesel, petrol, paraffin and jet A1 to the five oil companies which operated in the country for distributing the products to the final users. These five companies used to buy product from NOCZIM on credit. Due to the relevant monetary place that was in place prior to dollarisation, these companies would sell the fuel in Zimbabwean dollars to the motoring public and then pay NOCZIM later in Zimbabwean dollars.NOCZIM would then exchange these Zimbabwe dollars for forex with the Reserve Bank of Zimbabwe (RBZ) at the official exchange rateto get forex to procure fuel. There was thus no impetus for oil companies, including NOCZIM to raise any working capital to fund the procurement of fuel. It was the government's responsibility to provide such funds. The oil companies would get product on credit, sale that fuel for cash, pay NOCZIM for the fuel. NOCZIM would in turn exchange these Zimbabwean dollars for forex with the RBZ.

From 2000 to 2003, due to forex challenges that the Zimbabwean economy experienced, the government failed to raise enough forex for the procurement of fuel. This resulted in NOCZIM failing to fully supply the market with the petroleum products. This affected the smooth flow of business with motorists having to spend time in queues to try and get the petroleum products. Due to erratic supply of fuel, and the inability by government to fund the procurement of fuel, the governmentdecided to de-regulate the oil Industry in August 2003.

The deregulation opened up the Industry to other players so as to allow them to procure their fuel on their own. Statistics at the Ministry of Energy and Power Development Development show that in 2008there were 120 registered oil

companies. The number of active oil companies that are operating now is around 15. The major challenge faced by oil companies was on where to access funds to import fuel on their own. This responsibility had been shirked to the industry by the government. Prior to de-regularization, these oil companies used to get the product from NOCZIM on credit then pay later after selling the product in the market.

1.1.2 The Structure of the Oil Industry in Zimbabwe

The oil industry in Zimbabwe could be put into three strata, namely fuel importation, wholesaling and retailing. As discussed above up to August 2003 the importation of fuel was the preserve of one company. However, this was changed in 2003 and any registered oil company can import fuel. Wholesaling of petroleum products has been the preserve of registered oil companies that used to buy fuel from the importer for on selling to dealers. Retailing of petroleum products has been done by both registered oil companies and dealers. These entities sell petroleum products direct to consumers at dispensing outlets throughout the country.

With the abolition of monopoly on the importation of fuel, oil companies that used to operate at wholesale level have since moved upstream to the importation of fuel. Major oil companies are therefore involved at all the three levels that is importation, wholesaling and retailing.

1.1.3 Michael Porter's five forces model to Zimbabwe's Oil industry

In his article "How competitive forces shape strategy", Michael Porter states that the following five forces determine nature and extent of competition within an industry

1.1.3.1 Bargaining Power of Suppliers

Zimbabwe is a landlocked country that imports fuel i.e. Diesel, petrol and illuminating paraffin from international suppliers based in the Middle East, Asia and Europe. Few large suppliers from a fragmented source of supply dominate

the Zimbabwean oil industry. These suppliers sell their product to the various different oil companies operating in Zimbabwe. The major fuel suppliers to Zimbabwe are IPG, Glencore, Galana, and Trafigura.Oil companies in Zimbabwe have low bargaining power because they are fragmented with each firm doing its own business. The suppliers market requires huge capital injection to procure fuel from Refineries and have this product shipped to Beira where it is then pumped to Zimbabwe. This thus necessitates Oil suppliers to also invest in storage capacity at Beira and this requires high capital outlay. IPG, Galana and Glencore have established storage tanks at Beira to supply the Zimbabwean market. Thus the few Oil suppliers that have invested in storage capacity at Beira can dominate the market. Opportunities also exist in Zimbabwe for oil suppliers to acquire local oil firm in order to obtain higher margins by selling directly to the end user. Companies such as Glencore have teamed up local oil companies to enter into the Zimbabwean market.

Suppliers thus have high bargaining power in the oil industry and they can detect the prices and terms of conditions in Zimbabwe.

1.2.3.2   Customer bargaining power

The customers bargaining power is a measure of how much power customers can exert in determining the supplier's margins and volumes. The deregularisation of the fuel industry gave birth to the mushrooming of many oil companies in Zimbabwe. Consequently customers now have a wide pool of companies to procure fuel from. Further to this, the fuel offered by these different companies is undifferentiated and is the same. The customers are also price sensitive and can easily switch from one oil company to another with ease. Information on prices is easily available. Customers thus have high bargaining power in this industry.

1.2.3.3   Threats of new entrants

If it is easier for other players to enter into the industry, the competition in that industry will be higher.A new entrant could thus change significantly the market

dynamics in that market any time.There is always pressure for response and alteration for current players in this industry. Barriers to entry determine the threat of new entrants. The oil industry requires high capital requirements for infrastructure development such as, setting up depots, service stations, distribution channels such as pipelines, trucks etc and the procurement of trading stock. The existing players currently enjoy cost advantages of due to having had a head start and having the required infrastructure. This industry is also characterized by close regulation by government.

The Zimbabwe Energy Regulatory Authority (ZERA) regulates the oil industry. This agency issues out licences to fuel importers, wholesalers and retailers whose fees range from $1,000 to $25,000. The Environmental Management Agency (EMA) also regulates the activities of oil companies through issuances of licences and inspections. EMA issues out a wide range truck licences, service stations licences and depot operating licences. This Agency also imposes very high punitive penalties for non compliance with their requirements. The Ministry of Transport, Communication and Infrastructure Development issues out certificate of finesses to road transporters of fuel. Local Authorities also weigh in with their licensing regulations as well. The existence of these barriers to entry thus limits the threats of new entrants in the market.

1.1.3.4 Threat of substitute products

In the oil industry, these do not arise as the product involved has no close substitutes. In recent years however, ethanol blended petrol has come on to the market under the name E10. This is a mixture of 90% pure petrol and 10% ethanol. This is being done to reduce the import bill for petrol. Green fuels, the producers of ethanol have even gone further to introduce E85 which is a mixture of 85% ethanol and 15% petrol. Automobiles using this type of fuel however need to have their engines modified in-order to take this type of fuel. Further research on this type of fuel may result in pure ethanol being used as a substitute for petrol in the long run.

1.1.3.5   Competitive rivalry within the industry

The oil industry has many players, supplying homogeneous products and as a result, competition in this sector is on the basis of; - price, availability of product, convenience/location and number of outlets, quality of service, promotions (advertising, sales promotion, personal selling, branding), social and formal bonding with customers, competitive procurement and payment terms. This rivalry explains why out of the 120 registered oil companies, only about 15 are very active.

Table 1: Oil industry market share

Company	Estimated Market Share
REDAN	21%
Sakunda	16%
Zuva	15%
Total	15%
Petrotrade	7%
Engen	11%
Others	15%
TOTAL	**100%**

Source: ZIMRA statistics of all fuel consumed in the country and NOIC statistics of fuel uplifts by Oil companies.

1.2   Statement of the Problem

Theoil industry, which is a key strategic sector of the economy, has been left to be manned largely by private players in the oil industry with minimal government interventionafter the liberalisation of this sector. Since dollarisation, the Zimbabwean economy has been facing a liquidity crunch with very little credit lines available to business. Funding thus represents a major challenge that oil companies' face in ensuring that fuel is readily available in the country. This has prompted this researcher to investigate how these oil companies are managing

without lines of credit for this vital sector and to study the impact of these lines of credit on this sector of the economy.

1.3   Research Objectives

The objectives of the research are:

i)   To investigate the accessibility of credit lines by oil companies in Zimbabwe

ii)   To determine the impact of these lines of credit on the growth and operations of oil companies

iii)   To investigate strategies that oil companies are embarking on to secure funding to ensure their survival.

iv)   To recommend on how this sector can access lines of credit.

1.4   Research Questions

The research will seek to provide answers to the following questions:

i)   Are oil companies able to access these credit lines?

ii)   What is the impact of these credit lines on the growth and operations of the oil companies?

iii)   What strategies are these oil companies pursuing to secure funding?

iv)   How can regulatory authorities ensure that these credit lines are made available to the oil industry?

1.5   Research Proposition

The survival of oil companies in Zimbabwe is threatened by the non-availability of credit lines fund the procurement and supply of fuel.

1.7   Justification of the study

The primary beneficiaries of the study are the following:-

i)   To the researcher

It enhances his understanding of the liquidity crunch on oil companies and explores other ways of overcoming this for both professional reasons and for personal knowledge. The researcher is the Finance Managerof Petrotrade and so the knowledge gained will be invaluable in the execution of his work.

ii)   To the shareholders

It provides an insight into the necessary strategic issues to consider when establishing and operating an oil company. The study enhances shareholder activism and assist in making directors more knowledgeable and accountable, hence facilitating sound funding decisions.

iii)   To regulatory authorities

Regulatoryauthorities such as ministries and the RBZ are provided with an insight into areas of where the policy making decisions can affect the smooth flow of business. This enhances their policy making responsibilities for the good of investors and the public.

iv)   To lending institutions and oil companies

The study shall facilitate sector specific lines of credit, to ensure that oil companies are able to access lines of credit.

1.8   Scope of Research

i)   The study shall concentrate on the impact of lines of credit for oil companies trading in Zimbabwe. For practical purposes and reasonableness, the study shall focus on Petrotrade and ten entities importing fuel in Zimbabwe.

ii)   The qualifying criteria for choice of companies studied based on thosethat were trading in 2012.

iii)   The study focuses onthe impact of credit lines specific reference to oil trading corporate companies. This means that the study shall limit itself to

decisions that are motivated by funding decisionsin oil trading corporate companies only.

iv) The study will also explore other funding options or strategies that oil companies can pursue to remain viable.

1.9   Limitations of the research

The major limitation is the time frame in which the research will be carried out. The other limitation is the difficulty in obtaining confidential information and is to be done on a sample basis which may not be representative of the whole population.

1.10   Dissertation Structure

The research is organised in the followingsections;-
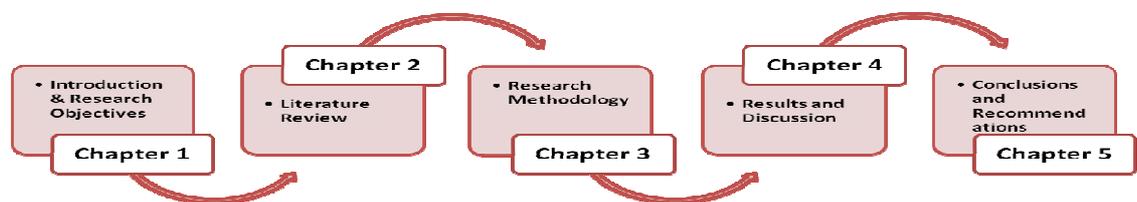
Chapter One – Introduction

The background of the study, statement of the problem, research objectives, research questions, justification and scope of the study are provided in chapter one.

Chapter Two - Literature Review

This chapter provides a critical review of literature relevant to the study. The review also provided a framework for the discussion of results in Chapter 4.

Chapter Three – Research Methodology

Chapter three describes the research methodology and highlights the methodology that was employed to conduct this research.

Chapter Four – Results and Discussion

This chapter analyzes the data collected using primary and secondary sources.

Chapter Five – Conclusions and recommendations

This chapter presents conclusions from the research findings and provides both policy and research related recommendations.

1.11 Chapter Summary

This chapter introduced the research on the subject of the impact of lines of credit in the oil industry. It gave background information on the oil industry, statement of the problem, primary and secondary objectives, primary and secondary research questions and justification indicating the importance of the study. The unprecedented fuel shortages experienced in Zimbabwe during the period 2002 to 2003 and the subsequent deregulation of the oil industry resulted in the private players having to source for funds to import fuel with minimal government support. The chapter thus set the context of the impact of credit lines in the oil industry in making fuel available to the motoring public.

CHAPTER TWO: LITERATURE REVIEW

2.0   Introduction

Neuman (2003) articulates that, the goals of conducting a review of literature are to demonstrate familiarity with the body of knowledge, to show the course of past research and how this can related to the current study, to synthesize facts about the research topic and to learn and improve on prior research work (p.96). Literature Review, in this study, will explore the impact of credit financing in corporates. This knowledge provides a contextual analysis of key issues pertaining to credit financing in oil trading corporate entities, and facilitate appropriate recommendations for improving the economic policy regulations to ensure lines of credit are available.

2.1   Financing international trade

Zimbabwe as already mentioned, is a landlocked country with no oil reserves, and thus relies on international trade to import fuel from abroad for its requirements. This importation of fuel however needs be paid for. J Madura (2004) argues that in any international trade transaction, credit is provided by either, the supplier (exporter), the buyer (importer), one or more financial institutions, or a combination of these. A financially strong exporter can finance the entire trade cycle out of its own funds by extending credit until the importer has converted this fuel into cash. This form of credit is known as supplier credit. In some cases the exporter may require bank financing to augment its cash flow. On the other hand, the supplier may not desire to provide financing, in which

case the buyer will have to finance the transaction itself, either internally or externally, through its bank. (p.560)

2.2.1 Payment terms in international trade

Both A Shapiro (2003) and J Madura (2004) explain that there are five principal means of payment in international trade, these being Cash in advance, Letter of credit, Draft, Consignment and open account. These are methods available to oil companies trading in Zimbabwe.

2.2.1.1 Cash in advance

Under the cash advance or prepayment method, the exporter will not ship the goods until the buyer has remitted payment to the exporter. This method affords the exporter the greatest protection because payment is received before shipment of the goods. Cash terms are used when there is political instability in the importing country or when the buyer's credit is doubtful.

2.2.2.2 Drafts

A draft or bill of exchange is an unconditional promise drawn by one party, usually the exporter, instructing the buyer to pay the face amount of the draft upon presentation. (J Maduro p 562). It is also defined as an unconditional order in writing- usually signed by the exporter (seller) and addressed to the importer (buyer) or the importer's agent- ordering the importer to pay on demand, at a fixed or determinable future date, the amount specified on its face. (A Shapiro p 616)

2.2.2.3 Consignment

Goods sent on consignment are only shipped, but not sold, to the importer. The exporter (consignor) retains title to the goods until the importer (consignee) has sold them to a third party. This arrangement is normally made only with a related company because of the large risks involved.

2.2.2.3   Open account

Open account selling is shipping goods first and billing the importer later. The exporter is relying fully upon the financial creditworthiness, integrity, and reputation of the buyer. This method is used when seller and buyer have mutual trust and a great deal of experience with each other.

2.2.2.5   Letter of credit

A letter of credit (L/C) is an instrument issued by a bank on behalf of the importer (buyer) promising to pay the exporter (beneficiary) upon presentation of shipping documents in compliance with the terms stipulated therein. (J Madura p 562)

The letter of credit therefore becomes a financial contract between the issuing bank and designated beneficiary that is separate from the commercial transaction. (A Shapiro p 612)The letter of credit is one of the oldest forms of trade finance in existence. Because of the protection and benefits it accords to both exporter and importer, it is critical component of many international trade transactions.

2.2.2.5.1   Importance of L/Cs

Of all these methods of payment available, the most widely used in the global economy are the letters of credit. A Shapiro (2003) goes on to list both the advantages of L/Cs to both the exporter and exporter.

The following are the advantages of LCs to the exporter

- An L/C eliminates risks if the bank that opens it is of undoubted standing
- Countries generally allow local banks to honour their L/Cs as failure to do so could damage the country's credit standing and credibility thus reducing default risk
- The L/C can also guard against pre-shipment risks.
- An L/C reduces uncertainty as the exporter knows all the requirements for the payment because they are clearly spelt stipulated in the L/C.

- An L/C facilitates financing because it ensures the exporter a ready buyer for its product.

An L/C also offers the following advantages to the buyer;-

- Because payment is only in compliance with the L/C stipulated conditions, the importer is able to ascertain that the merchandise is actually shipped on, or before, a certain date by requiring on board bill of landing.
- The importer usually commands more advantageous credit terms and favourable prices as an L/C is as good as cash in advance.
- Some exporters will only sell only on a letter of credit. Willingness to provide one expands a firm's sources of supply.

2.2.3 Reasons for non-availability of L/Cs in Zimbabwe

The use of LCs with financial institutions across borders involves an assessment of country risk. Country Risk Analysis is the evaluation of possible risks and rewards from business experiences in a country. It is used to survey countries where the firm is engaged in international business, and avoids countries with excessive risk. The International Country Risk Guide (ICRG) rating developed by the Political Research Services Group comprises variables in three subcategories of risk;-Political, financial and economic which are then used to rate country risks in countries. Institutional investors, banks, multinational corporations, exporters, shipping concerns and a multitude of others use the ICGR model to determine how financial, economic and political risk might affect their business and investments now and in the future.

The Zimbabwean economy has not fared well in terms of country risk and economic health because of various policies and governance issues that government has implemented which have had a bearing on the country's performance. The World Trade report of Zimbabwe (2011) indicates that during the year 2008, the Zimbabwean economy macroeconomic environment was very highly unstable. In July 2008, inflation reached 231 million percent. There were

serious shortages of basic necessities including electricity, fuel, water, most basic food and non-food commodities. The economy also experienced a serious decrease in agricultural production. This reduction was credited to the delays in input deliveries to farmers as well as recurring droughts. The lack of foreign currency and the loss of skilled labour were also cited as the reasons for the decline in agricultural production.

The country experienced unrelenting capital account deficits and experienced a severe reduction in foreign currency capital inflows. This situation led to pressures on foreign exchange reserves. As a result, the government experienced challenges in raising funds to finance the importation of essential products such as grain, drugs, raw materials, fuel and electricity. Zimbabwe imports 100% of its fuel requirement and 40% of all its electricity needs so the shortage of fuel and electricity adversely hindered industrial production which fell to below 10% of capacity by 2008.

The CZI Manufacturing Sector Survey Report (2012) highlighted that due to the perceived high country risk, there has been a significant reduction of international private capital flows and the credit lines are availed with stringent disbursement conditions (p.6). This outcome has had immediate impacts on businesses. Businesses have remained small due to lack of affordable funding. The little available funds have been availed to the industry at very high interest rates.

2.2.4.1 Land reforms

When government instituted land reforms, commercial farms were broken up, their productivity plunged by half between 2000 and 2007, the expertise of the white farmers was lost to foreign nations, and the spectre of forcible expropriations haunted all prospective investors causing foreign direct investment to whittle down from US$400 million in 1998 to US$30 million in 2007 (Richardson 2005). Shortly after the land expropriations began, the United Kingdom, the United States, and the European Union instituted targeted sanctions. The Bush administration enacted the "Zimbabwe Democracy and Economic Recovery Act" in 2001, linking financial support with democratic

reforms and soon after, the International Monetary Fund withdrew support alongside the European Union (Chengu 2009).Zimbabwe now suffers from a lack of financial integration with the global economy, which would help solve the problem of credit shortages by allowing foreign banks to loan to Zimbabwean companies, without the necessity of balancing their loans and deposits.

2.2.4.2 Indigenisation policies

The "Indigenization and Economic Empowerment Act of 2007," which requires that black Zimbabweans own 51 percent of companies, further inhibits the financial integration of the financial system with that of any foreign country. The act states that 'The Government shall, through this Act or regulations or other measures under this Act or any other law, endeavor to secure that—(a) at least fifty-one per centum of the shares of every public company and any other business shall be owned by indigenous Zimbabweans' (2007 p. 5).

The Act has the effect of putting limitations on foreign direct investment. Through the legislation, companies are obliged to cede 51% ownership to the State and remain with 49%. The Bill gives first preference to indigenous individuals who wish to be part of any industry. The case of the acquisition of BP-Shell Marketing Services by Medawar private limited is a case in point. According to the Herald of 27 February 2011, the National Indigenization and Economic Empowerment Board (NIEEB) had blocked the acquisition of BP and Shell Zimbabwe by two foreign-owned oil companies, namely Engen and KenolKobil, arguing that the move was not consistent with the country's indigenisation laws. Engen is one of South Africa's leading petroleum product retailers and KenolKobil is an oil retailer in Kenya. After this disapproval, the Competition and Tariff Commission (CTC) went on to approve the takeover of BP and Shell Zimbabwe assets by local businessman ShingiMutasa's FMI Zimbabwe.

2.2.4.3 Debt Crisis in Zimbabwe

The IMF in its article on Zimbabwe Debt Sustainability Analysis published in 2012 states that Zimbabwe was in a debt distress, with arrears to most creditors continuing to accumulate. At end 2011, total external debt was estimated at $10.7 billion or 113.5% of GDP. Total public and publicly guaranteed (PPG) external debt at end-2011 was estimated at 84% of GDP, of which 65% of GPD was in arrears. Zimbabwe' overdue financial obligations to international financial institutions included the World Bank ($911 million), African Development Bank ($587 million), EIB ($244 million) and the IMF ($138 million). The IMF paper further suggests that FDI in Zimbabwe will remain limited in the medium and long term against the backdrop of uncertainty relating to the indigenization policy. International Financial Institutions rely of information provided by authoritative sources like IMF. They use this to make investments and lending decisions. The inability of government to pay off its debts has resulted in International Financial Institutions taking their money elsewhere.

2.2.5 Limited Financing Options in Zimbabwe

Given the drying of financial support from the international community, Zimbabwean companies therefore have to resort to the local financial institutions for financing requirement. The local financial institutions have however been facing a liquidity crunch such that the little availed funds that have found its way into the banking sector has been loaned to the market at high rates.

2.2.5.1 Bank deposits

The RBZ Monthly Economic review, as quoted in the Zimbabwe Monthly Economic Review (February 2013) reported that the annual growth in broad money supply (M3) defined as total banking sector deposits (net of inter-bank deposits), declined from 33.2% in December 2011 to 28% in December 2012. The decline in annual M3 growth was a negative development on the economy, which is heavily reliant on bank finance.

Furthermore, according to the report, the composition of the of the bank deposits was also not healthy for an economy relying on bank finance. In December 2012, the composition of total deposits was as follows;-demand deposits (54.8%), Savings and short term deposits (31.0%) and long term deposits (14.2%)

Demand deposits accounted for 54.83% of all total deposits. This thus limits the financial institutions lending capacities. Banks require long term deposits in-order for them to issue out long term loan facilities which are critical for businesses.

2.2.6 Effects of lack of finance on the oil industry

Lack of access to finance locally and globally adversely affects the liquidity of companies in Zimbabwe. 'Liquidity, also known as working capital is defined as the difference between a firm's current assets and its current liabilities, normalised by total assets. The availability of more liquid assets increases the firm's ability to raise cash at short notice: Liquid firms can quickly liquidise some of their assets in case they need extra funds to finance uncertain productivity-enhancing activities. By contrast, illiquid firms may not be able to do the same and are likely to be more dependent on their cash flow for productivity-enhancing activities' Chen and Guariglia (2007 Pg 12)

Liquidity constraints have a bearing on the growth and survival of organisations. Various scholars and researchers have carried out research on the impact of liquidity constraints on the growth and survival of firms. Binks and Ennew (1996) opinion that the availability and cost of finance is one of the factors which affect the ability of a business to grow.

The growth of firms, especially small and young firms is constrained by the quantity of internally generated finance available. Butters and Lintner (1945 p.3) provide some of the earliest research to support this theory.   They conclude that many small companies-even with promising growth opportunities-find it extremely difficult or impossible to raise capital on reasonably favourable terms and that most small firms finance their growth exclusively through retained earnings.

Oil companies in Zimbabwe are thus bedevilled by liquidity constraints. Lines of credit are not available easily from outside the borders, internally; local banks are also facing challenges in providing funding to companies. This lack of liquidity has a bearing on the company's survival and growth.

2.2.3.1 Firm survival and liquidity constraints

2.2.3.1.1 A glance at existing empirical literature

The existence of financial constraints can have important effects on the firm's ability to grow and stay in the market. A number of studies exist on the topic, although many stem from the finance and growth macro literature (Levine, 2005) and focus on comparing cross-country performances controlling for the degree of financial development. A recent work is an article by Ghion, Fally and Scarpetta (2007) where the authors address the impact of financial development on firm entry, the size at entry and the post–entry performance of new firms. They found that access to external finance matters most for the entry of small firms, and that it improves market selection by allowing small firms to compete on a more equal footing. Also financial development is shown to alleviate significantly post entry growth of firms.

Studies in Kenya

Nkurunziza (2005) carried out research in Kenya on the effects of credit on growth of firms in Kenyan Manufacturing. He argued that the use of bank credit can affect firm growth in two ways, positively if credit allows a firm to address the liquidity constraint and increase profitability. If, however, macroeconomic shocks such as an increase in interest rates make firms debt unsustainable as experienced in Kenya in the 1990s, indebted firms may shrink or even collapse. He thus carried out an empirical study of the effect of initial size and access to credit on Kenyan firms. Using macroeconomic data on the Kenyan manufacturing sector, the study found that firms that used credit grew faster than those that were not using it. These findings gave credence to the hypothesis that the lack of

access to credit may be an important impediment to firm growth as claimed by firm managers in Kenya.

Studies in Portugal

Oliveira and Fortunato (2005) also carried out research in Portugal. In their research entitled 'Firm Growth and Liquidity Constraints', they used a large unbalanced panel data set of Portuguese manufacturing firms surviving over the period from 1990 to 2001. The objective of their study was to examine the impact of liquidity constraints faced by business firms affect growth. Using pooled OLS and GMM-sys techniques, their overall results suggested that growth of Portuguese manufacturing firms was finance constrained. When they split their sample by firm size and firm age, they found out that the smaller and young firms' growth was more limited in terms of cashflow available, which signalled greater financing constraints for these firms. Fagiolo and Alessandra (2006) also make similar findings in the Italian research that they did. They conclude that (i) liquidity constraints engender a negative effect on growth (ii) smaller firms grow more after controlling for liquidity constraints and (iii) the stronger liquidity constraints, the more size negatively affects firm growth.

Studies in United Kingdom

Saridakis, Mole and Hay (2007) carried out a survey that focussed on new businesses in the United Kingdom. This survey which covered 622 new forms between 190 and 2001 focussed on the effect of liquidity constraints on firm growth and survival. Their survey also considered a wide range of human capital, strategy and industrial variables. Their results suggested that being financially constrained at the start up does not have any significant impact on firm growth, but affects negatively its survival. These results collaborate authors like Saridakis et al (2007) who found out that firms which reported being financial constrained at start up have less chances of survival.

Studies in the USA

Earlier research by Carpenter and Peterson (2002) in the United States of Africa (USA) as quoted by Saridakis, Mole and Hay (2007), indicate growth is affected by finance. They present a very plausible model where in the presence of credit rationing and collateral requirements, if a firm's finance constraint is binding an extra dollar of investment increases the asset value by more than a dollar. The marginal returns to investment are positive and so the authors conclude that for most small firms, growth is constrained by lack of internal finance. Similarly Becchetti and Trovato (2002) found that being turned down for finance, or rationed, had a negative impact on growth rates.

Studies in France

In France, Musso and Schiavo (2007) also provided empirical evidence on studies done on French manufacturing firms over the 1996-2004 period which suggested that; (i) financial constraints significantly increase the probability of exiting the market; (ii) access to external financial resources has a positive effect on the growth of firms in terms of sales, capital stock and employment; (iii) financial constraints are positively related with productivity growth in the short run. They however interpreted the last result to mean that constrained firms need to cut costs in-order to generate the resources they cannot raise on financial markets.

Studies in German

Audretsch and Elston (2000) examined the link between liquidity constraints and investment behavior for German firms of different sizes from 1970 to 1986. The results indicate that medium firms appear to be more liquidity constrained in their investment behavior than either the smallest or largest firms in the study. This suggested that the German infrastructure designed to assist the small firms had indeed succeeded in alleviating to some degree, such liquidity constraints. Chen and Guariglia (2007) state that a well developed financial system can influence long term economic growth through its ability to mitigate information and transaction costs, and to impact on saving rates and investment decisions

(Levinem 2005). The German research on the investment behavior of small firms resonates well with this assertion.

Whilst most research seems to conclude that liquidity constraints negatively affect growth of firms, Bhide (2000) brings another dimension. Bhide studied the fastest growing 500 firms in the USA. He concluded that cash strapped entrepreneurs used their ingenuity to overcome their constraints and build their businesses. Getting over the liquidity constraints just showed their entrepreneurial ability. He opinions that meager funding forces entrepreneurs to conduct low cost experiments that help resolve market and technological uncertainties' and prepare the ground for subsequent large scale investment. (Pg 357). Mustar et al (2006) also point out that it is not so much the absolute resources but the relationship between the available resources and whether they are sufficient for the business model for which they will be used.

Given the various literature and studies that have been undertaken in other countries on the impact of liquidity constraints on the growth of companies. This research will seek to analyze the oil industry in Zimbabwe to check if it confirms with findings elsewhere. The oil industry was deregulated in 2003. This saw the industry having new players. From an initial number of 5 in 2003 to a peak of 120 companies in 2007 and to a current 31 registered companies in 2013.Non availability of lines of credit has been identified as a reason for this decline in players in the oil industry. This research seeks to explore this assertion and come up policies and recommendations that can be adopted by policy makers to ensure survival and growth of players in this market. Petrotrade shall be used as a test case.

2.2   Chapter Summary

This Chapter focussed on the nature of the oil industry in Zimbabwe and revealed that oil is 100% imported in the country. As a result of this oil companies trading in Zimbabwe therefore need to engage in international trade to get this product. The chapter then analysed the 5 principal payment terms that are

available for international payments these being, cash advance, Lines of credit, bills of exchange, consignment and open account. The chapter further went on to focus on the commonly used method of payment international trade i.e. lines of credit as proposed by various authors. The availability of lines of credit in Zimbabwe was then analysed using different sources of material and statistics. The chapter also explored the availability of credit within Zimbabwe. through the analysis of bank deposits, rate of interest rates and the distribution of the bank loans and advances to the economy. This analysis of all the various literature will assist the reader in addressing the identified problem.

CHAPTER THREE: RESEARCH METHODOLGY

3.0   Introduction

This chapter highlights the methods the researcher will use to conduct the research. The purpose of this chapter is to discuss in detail the choice and rationale for the research method to be applied in the study. The researcher will adopt multiple strategies to ensure sufficient and reliable evidence is collected and collated for the study.

3.2   Research Design

Zikmund (1997) defines research as seeking through methodical processes to add to one's body of knowledge and hopefully to that of others, by the discovery of non trivial facts and insights. Fraenkel and Wallen (1996) define a research design or method as a systematic and orderly approach taken towards the collection of data to decipher information from the data.

3.3   Research Philosophy

Saunders, Lewis and Thornhill (2003)state that research philosophy is dependent onthe researcher's thoughts about the development of knowledge. They give three views on the research process, these being; positivism, interpretivism and realism all of which play a crucial role in business and management research.

3.3.1 Positivism Approach

Saunders et al, (2003) indicate that this is where the researcher prefers working with apparentsocietal realities whose end product of such research can be law-like generalizations similar to those fashioned by the physical and natural scientists. Quantitative methodology is associated with the rationale and objective measurement of observable phenomena.(Ashley&Boyd 2006)

The positivist research is a deductive theory tested by observation, which seek to explain underlyingassociationsconnecting variables using quantitative data. In other words the research is of a scientific nature aiming to deduce a hypothesis or a proposition.

3.3.2 Phenomenological Approach

According to Gill and Johnson (1997), the phenomenological approach tries to explain and understand a phenomenon rather than search for external causes or fundamental laws. Phenomenology takes a perspective that is qualitative to the research process and uses descriptive and non-mathematical procedures when interpreting and explaining the research results. Saunders et al (1997) propound that according to the phenomenological approach, business knowledge can be best understood when a researcher directly participates in the activities to be investigated. Their case is that rich insights into this complicatedhumanity may not taken into account if such complexity is abridged to a sequence of generalisations. Business situations are distinctive and must thus be understood in theirindividual rights. Burrel and Morgan (1979) say that the interpretive model seeks to clarify the stability of behaviour from the individual's standpoint.

3.3.3 Realism Approach

Saunders et al (2003) say that realism is based on the conviction that reality exists and does not rely on human judgment and beliefs. The social world hence in this respect exists separate from the individual's perception of it.

In business research Saunders et al (2003) opinion that this can be an indication of major social forces and processes that have an effect on people without them being necessarily aware of the existence of such influences on their interpretations and behaviours. In such a philosophy the researcher can best appreciate the business situation through observation.

3.3.4 Approach chosen

In determining the research approach between positivism and phenomenological, the researcher considers the nature of the research. He also considers the

context of the study, the information requirements of the study, the financial and human resources available. (Yin 2003)

Phenomenological research differs from positivism research in that it provides loaded, detailed and pertinent data that contributes to a much more detailed understanding of the study context. Positivism research provides reliable population based data that explains cause and effect relationships (Denzin and Lincoln, 2005).

The researcher used the phenomenological approach to carry out this study. Personal interviews were conducted to get information needed to address the research questions. These personal interviews enabled the acquiring of in depth understating on the impact of the unavailability of L/Cs in the oil industry.

Interviews were deemed to be the best approach for the particular questions being explored. Interviews enabled the researcher to pick up unrecorded gestures which he further probed. In addition, the researcher got instant feedback on questions raised.

3.4 Research Strategy

Remenyi et al (1998), opinions that the research strategy is the general plan of how the researcher plans to answer the research questions. It specifies the source of data considering the constraints that may inevitably stand as challenges to the carrying out of the research. According to Punch (2008, p.66), 'Strategy is the logic or rationale- reasoning, or the set of ideas by which the study intends to proceeds in'.

Yin (2008) writes that numerous ways to conduct research are available. These are; experiments, surveys and case studies. All the three strategies are explained below.

Experiment

The effects of varying one variable on another variable are measured in an experimental research strategy. The distinctive features of an experiment includethe selection of a sample from a known population. This sample is then

subjected to a series of different experimental conditions. Robson (1993). This strategy was however not applicable in this research because of its nature.

Survey

Wegner (1993)states that the survey research is a methodicalway of gathering primary data using structured questionnaires. This is also used to communicate with a reasonably large number and highly representative sample of respondents.

Case study

According to Robson (1993), case study is the development of deeper, meticulousinformation about a lone case or small number of associated cases. He further argues that the case-study approach cancome up with answers to why, what and how questions.

The survey approach was employed in this study. A survey was conducted on the top 8 existing oil companies. These 8 chosen companies control 85% of the market share and were therefore considered to be highly representative of the whole industry. A survey of collapsed oil companies was also done to establish whether the reasons for collapse had any bearing with the unavailability of L/Cs. Time constraints and access to information were the major considerations done in selecting this method over others. The researcher managed to obtain rich, detailed and pertinent data that contributed to a deeper understanding of the context.

3.5 Population and Sampling Techniques
3.5.1 Population

Polit and Hungler (1999) define a population as the totality of all subjects that conform to a set of specifications, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalized.

The population for this study will made up of senior management of the 31 Oil Companies that are registered with ZERA and are currently importing and distributing fuel in Zimbabwe.

The study will also look at 65 oil companies that initially were registered in 2009 but have closed shop and are no longer currently active in the fuel industry.

3.5.2 Sample Size

A population subset is defined as a sample by Wiersma and Jurs (1979) According to Saunder et al (2003), a population is examined using a sample from the population. It is sometimes impossible to gather information on all members of a population. The chosen sample should as much as possible resemble the main characteristics of parent population for it to be representative of the population.

Wiersma and Jurs (1979) indicated that time constraints and prohibitive costs may make it difficult to conduct a census of the population particularly if the population is too large. Researchers thus need examine samples which are generally less costly and can be done within a shorter time frame.
The following factors govern the size of a sample (Saunders *et al* 2003):

i. The confidence one has in their data, which is the level of certainty that the characteristics of the data collected will represent the characteristics of the total population.

ii. The margin of error that the researcher can tolerate, that is, the accuracy the researcher requires for any estimate made from the sample.

iii. The types of analyses one will undertake, in particular the number of categories into which the researcher wishes to subdivide data, as many statistical techniques have minimum threshold of data cases for each cell.

The above presents competing influences and Saunders *et al* (2003) conclude that it is not surprising that the final sample size is most certainly a matter of judgment rather than calculation.

Of paramount importance to be considered when establishing the sample size is the response rate.

3.5.3 Sampling Techniques

Moser and Kalton (1986) and Henry (1990), argue that using sampling enables a higher overall accuracy than does a census. The smaller number of cases for which the researcher needs to collect data means that more time can be spent designing and piloting the means of collecting these data. According to Cooper and Schindler (2003), the basic idea of sampling is that by selecting some of the elements in a population the researcher may draw conclusions about the entire population. They also mention the reasons for sampling as lower cost, greater accuracy of results, greater speed of data collection and availability of population elements.

Two main sampling techniques are available, that is, probabilistic and non-probabilistic techniques. Probabilistic sampling is commonly linked with survey–based research, whilst on the other hand; non-probabilistic sampling is commonly linked with amongst others, the case study research.

3.5.3.1   Probability sampling

According to Wegner (1993) probability sampling is a method that includes everyselection technique where the elements to be included in a sample have been chosen on a purely random manner from the population. All members of the population have equal chances of being selected. This technique is further

made up of simple random sampling, systematic sampling, stratified sampling and cluster sampling.

The researcher will use both stratified sampling technique and simple random technique. The researcher has targeted senior management of 10 selected oil companies that are still active in the industry and 5 oil companies that are no longer active in the industry.

3.5.3.2   Non-Probability Sampling Methods

Non probability sampling on the other hand is any sampling method in which observations are not selected randomly. Leedy (1992) acknowledges that non probability sampling offers no guarantee that the sample represents the population being studied. The research focused on senior management at selected oil companies implying that purposive non-random sampling was used.

3.6 Data Collection Methods

According to Wegner (2001) data collection methods for statistical analyses include direct observation, interview method, questionnaire method and experimentation.

3.6.1 Sources of Data

3.6.1.1   Primary Research

Bailey (1995) states that primary sources are first hand accounts not based on other written works, nor interpreted by other researchers. Primary data are invaluable as it is not only the most current data available but are also specific and concise. According to Ghosh and Chopra (2003), primary data is originally collected by the concerned investigator or enumerators from the source of their origin in the process of investigation.

Zikmund, (2003) observed that primary data is expensive to collect, but is important, as it is possible to formulate structured and unstructured questions that focus on the study topic

3.6.1.2 Secondary Research

On the other hand, secondary data is one that is gathered and recorded by someone else prior to the current project. The secondary data includes the use of information from journals, the internet and other sources on the subject (Zikmund, 2003). Secondary data has the advantage of being readily available; data is highly accessible and less expensive to obtain (Zikmund, 2003). However, secondary data has its disadvantages. The data may not be relevant to the current study, or data may be outdated for the current purpose, while bias and collation errors may arise.

In this study, primary data was obtained through questionnaires. Although it is often difficult to interpret on its own, reference sources and secondary analysis gave the researcher a framework for interpreting primary sources taking into account limitations of the different sources.

3.6.2 Questionnaires

Questionnaire method is a data collection instrument and the design of a questionnaire is critical to ensure that the correct research questions are addressed and that accurate and appropriate data for statistical analysis is collected, (Wegner, 2001). Questionnaire methodallows a wide coverage with minimum expenditure both in money and effort. As highlighted by Moser and Karton (2004), this method allows respondents to express their views without due influence from either the researcher or other respondents and it ensures greater comparability of responses.

The disadvantages are that the questionnaire method does not allow for further probing and thus answers have to be accepted as final. Nachmias and Nachmias (1999) point out that a questionnaire requires simple questions. The questions should be straight forward enough to be comprehended solely with the help of printed instructions and definitions.

A questionnaire may either be administered by the researcher personally or may be posted / mailed to the respondents. The mailing of questionnaire to respondents has the advantage of lowering costs, removing bias by interviewer, has greater anonymity and allows greater geographical coverage. The disadvantages of mail questionnaire however, include lack of probing, low response rate even after follow-ups – sometimes making it difficult to obtain a representative sample.

3.6.2.1 Questionnaire design

To write the questions and set up the questionnaire is essential for development of a survey research design (Zikmund, 2003).

Questionnaires are useful, according to Burns (2000), as a method of gathering data which is descriptive of current events, conditions or attributes of a population at a particular point in time. A questionnaire was chosen as the target population was highly literate and experienced in responding to written questionnaires (Bell, 2000).

The questionnaire consisted of both open-ended and closed questions. This enabled the researcher to get more in-depth responses, as it had been planned to analyze the responses quantitatively and qualitatively, interpreting what respondents will provided.

The use of open-ended questions supplied the participants with a context for an answer while offering little restriction on the participants' input which, as Burns (2000) observed, could assist in facilitating "a richness and intensity of response".

The aim of the questionnaire is to generate reliable and valid data from a high proportion of a population within a reasonable time period at a minimum cost, which as Bell (2000) pointed out, can be a relatively cheap and quick way of obtaining information. Thietart (1999) also acknowledged that the questionnaire is the most efficient way of collecting primary data without pressuring customers. Participants voluntarily fill in the questionnaire as it preserves the anonymity of the data source.

The questionnaire relied heavily on the use of Likert-Scales with scaling structured such as yes or no, range of values and rating scales. The use of Likert-scales within the questionnaire is advantageous in that it will generate data from the participants' response with relatively homogenous scales with reasonably high validity and reliability, which as Burns (2000) asserted, increases the probability that a unitary attitude is being measured.

3.6.3 Personal Interviews

This is a face to face data gathering method in which a list of relevant questions for investigative enquiry iscontained in an interview guide. (Salant and Dillman, 1994). The following are the advantages of this data collection method:

a) There is room for further probing by the researcher.

b) The interviewer can observe non verbal responses and note them.

c) This method provides quick feedback

There following are however disadvantages associated with the use of personal interviews;

a) The danger of Interviewer bias cropping in.

b) Travelling costs may be discouragingly high.

c) Interviewer may not have the requisite interviewing skills.

In carrying out the interviews, the researcher was cognisant of the bias risk and approached the task at hand with an enquiring mind so as to eliminate this risk.

Face to face interviews were conducted with the senior management in order to obtain deeper information at the strategic level of the organisation.

3.6.4 Data Presentation and Analysis

Phenomenological research provides no standard format for use to analyse data (Neuman, 2006). The researcher therefore carried an analysis of data obtained using data displays. Miles and Huberman (1994) state that deciding what and which meaning to attribute to the words and the implications to the topic under investigation is part of data collection. The researcher went through all the responses to the questions to establish common traits and relationships. The information gathered was then analysed against theory and empirical case studies cited in the literature review. Appropriate inferences were then made.

3.7   Research Limitations

The target population of this research involved senior managers with busy schedules and had challenges with setting aside time to respond to the research questionnaire. To deal with this challenge, the researcher delivered questionnaires well in advance so that the respondents would have more time to respond. Long questions and questionnaires were also avoided to retain the interest of respondents. Appointments and follow-ups will be made to ensure that the questionnaires are responded to.

Another limitation faced during this research was that of confidentiality. The researcher assured the respondents that the information gatheredto be used for academic purposes only.

3.7.1 Ethical considerations

Among the significant ethical issues that were considered in the research process included consent and confidentiality. In order to secure the consent of

the selected participants, the researcher relayed all the important details of the study, including its aim and purpose. By explaining these important details, the respondents were able to understand the importance of their role in the completion of the research.

The confidentiality of the participants was maintained by not disclosing their names or personal information in the research. Only relevant details that helped in answering the research questions were included.

3.8   Conclusion

This research was done using the phenomenological approach. The researcher carried out the study through the use of personal interviews. Data was gathered for the period 2008 to 2013. The researcher discusses and analyses the findings of the research in the next chapter.

CHAPTER FOUR: RESULTS PRESENTATION, ANALYSIS & DISCUSSION

4.0Introduction

In this chapter the researcher presents the research findings from the in-depth interviews and analyses these results using content analytic tables. The results in the tables were explained followed by a discussion of the implications and the link to literature. The chapter comprises of two sections that summarize the responses conducted with Senior managementof 8 oil companies and former managers for 5 Oil companies that closed shop.

4.2   Part A: Active Oil companies

The Researcher interviewed the managing directors of the following 6 dominating oil companies; Petrotrade, Redan, Sakunda, Zuva, TOTAL, Engen (these 6 occupy 85% of the market share between them and have an average yearly revenues exceeding $100 million) and 2 smaller oil companies i.e. Comoil and Trek Petroleum (these occupy 5% of the market share and have an average yearly revenue of around $40 million).

The Managing Directors of these companies were asked to fill in the questioners which had the following elements i.e. firm size in terms of turnover, number of employees, profitability growth, levels of borrowing, sales growth, levels of capital

expenditures. The researcher also asked the respondents to indicate their levels of borrowings and whether these companies had access to L/Cs from the banks. The researcher wanted to assess the link between credit borrowings and growth and then observe if any inferences could be made from the results gathered. The companies were stratified into these two categories order to analyse the responses more critically and make different inferences from the responses. The table below illustrates the responses gathered on the particular aspects of enquiry;

4.2.1 Liquidity constraints and their effects of fuel procurement

Table 2: Interview results with active oil companies

Respondent	Response
Financial Accountant- Petrotrade	The company has been unable to meet its sales target and complete its service stations. We have vast tracts of land which we are failing to develop. We have not been able to access any L/Cs to date. We have to buy our product on a spot tender basis and we have not been getting very favourable prices.
Managing Director - Sakunda	We have been able to access L/Cs and these have enables our company to import more products which are selling to other oil companies. We have been able to acquire several service stations and construct some from scratch, our latest project being our Mutare service station.
Managing Director – Redan	Our company thrives of the partnerships that we have had with our international supplier who supplies us on credit and we only pay after we sell. So product availability is not a major issue for us. On the Capex side, we have just completed putting up a service station at Kuwadzana.
Country Representative –	The company gets its fuel from our shareholder TOTAL – France, which owns some refineries on consignment. The

TOTAL	company has not undertaken any major capital expenditure for the last three year, except for acquiring a new distribution fleet.
Managing Director-ENGEN	Our fuel procurement is done from our parent company in South Africa. So we do not worry about fuel procurement. The major expenditure was acquiring Chevron in 2011.
Managing Director – ZUVA	The company has a strategic alliance with Glencore who supply all our fuel requirements on open account. The company acquired BP Shell using bank advances and funds from strategic partners.
Managing Director-Trek Petroleum	The company has to rely on overdraft facilities to fund its working capital. The company procures fuel on a spot tender basis even from suppliers with fuel available inland. The company has been able to fund its service station construction using shareholders capital.
Managing Director-Comoil	The company has managed to get a local bank guarantee that it is using to procure its fuel from a local supplier.

The researcher the requested the respondents to fill in a questioner with specifics about level of borrowings, sales growth levels, profitability levels, levels of CAPEX. The researcher assured the respondents that this would be treated as highly confidential information.

The table below shows the summary of responses.

Table 3: Responses summary-Active Oil Companies

Revenue levels	*Up to $40,000,000*	*$100,000,000 and above*
No of firms in each category	**2**	**6**
No of employees	Below 60	Above 60
Access to loans in the past 5 years	Yes in the form of bank-overdrafts and bank guarantees	Yes *(all the 6 respondents in the form of bank overdrafts and bank guarantees)*
Sales growth	Between 0%-49%	Above 100% *(all the 8 respondents)*
Level of CAPEX	Both 2 respondents had CAPEX of below	2 had CAPEX exceeding $1,000,000 and the other 4 had CAPEX of

	$400,000	between $500,000 to 1,000,000
Growth in profit	Below 100%	Above 100%
Access to L/Cs	No	• Sakunda and Redan had access to L/Cs with local banks and foreign banks • TOTAL and Engen are all multinational companies with consignment arrangements with parent companies. • ZUVA had a consignment arrangement with a supplier • Petrotrade had no L/Cs but negotiating for some
Level of constraints in accessing L/Cs	Very high	High
Impact of failure to get L/Cs on company performance	Very severe	Not very severe

The researcher managed to obtain a 100 % response rate because the sample size was small and easily accessible.

4.2.2 Analysis of results

4.2.2.1   Firms with revenues of up to $40 million

The respondents indicated that their growth prospects were being hampered by liquidity constraints. The two oil companies that have annual revenues of less than $40 million indicated that their sales growth was being affected by liquidity constraints and they have thus had to rely on internally generated funds available to them. This is in sync with Binks and Ennew (1996) assertion. These authors indicate that liquidity constraints have a bearing on the growth and survival of organisations. This view is also supported by Butters and Lintner (1945). The two companies in this research have been surviving on retained earnings and bank overdraft facilities only. The companies have had revenue growth of 50% over the past 3 years. The two companies have had limited CAPEX expenditure over the past 3 years. They have done capital expenditure of an average of $400,000

over three years. The study done by Olivera and Fortunado (2005) in Portugal also concluded that the smaller and young firms growth were more limited to the cash flow available, which signalled greater financing constraints for these firms. Fagiolo and Alessandra also make the same assertion on studies done in Italy.

4.2.2.2   Firms with annual revenue of $100 million

The 6 big oil companies in Zimbabwe that dominate 85% of the market, exhibited high levels of revenue growth, higher profitability growth and high levels of capital expenditures, particularly Sakunda, Redan and Petrotrade. The other 3 companies, ZUVA, TOTAL and ENGEN did not embark of massive capital expenditure as they were using their already existing infrastructure in the form of depots and service stations.

What is noticeable as well is that Sakunda and Redan had the highest growth rates in terms of revenues, profits and CAPEX. The two companies accounts for 38% of the market share. Sakunda is now importing 60% of all the fuel imported in Zimbabwe. Sakunda now supplies other oil companies with fuel in addition to competing with them on the market. A look at both Sakunda and Redan's balance sheet also revealed that both companies were highly geared with both companies having accessed loans and L/Cs from local banks. The growth of Sakunda and Redan is against the backdrop of credit in the form loans and Letters of credit availed by financial institutions to these companies. Sakunda has used L/Cs to buy product directly from refineries in bulk and as result has managed to lower its procurement costs by taking advantage of cost benefits associated with bulk purchasing.

This observation is in tandem with the findings by Nkuruziza (2005) who did a research in Kenya on the effects of credit and growth of firms in Kenya. The author carried out an empirical study of manufacturing firms in Kenya and demonstrated that firms that used credit grew faster than those that were not using it. Other oil companies in Zimbabwe that have not had access to credit have remained small. Others have even collapsed.

Petrotrade which emerged from the NOCZIM split accounts for 7% of the market. This company started operations in 2011 and has a sales growth of 100% over the period to 2012. The growth of this company was attributed to the capital injection by the shareholder in the form of fuel, particularly in 2012. This increased the liquidity of the company and helped it grow. Shareholders contributions are thus important in increasing the liquidity position of a company. This government company was however set up to stabilize the fuel market by dominating the market. The company has thus targeted a market share of at least 30% in-order to achieve this objective. The company has not yet managed to get the 30%, management indicated that they were hampered by the lack of credit, particularly L/Cs to enable it to buy more fuel cheaper in bulk as was being done by Sakunda. The company was facing challenges in accessing L/Cs because its predecessor company NOCZIM had not serviced some of its debt satisfactorily when it was trading.

TOTAL and ENGEN growth was attributed to the respective companies' relationships with their parent companies which supplied them with fuel on consignment and some on open account. Goods sent on consignment are only shipped, but not sold, to the importer. The exporter (consignor) retains title to the goods until the importer (consignee) has sold them to a third party. This arrangement is normally made only with a related company because of the large risks involved. Open account selling is shipping goods first and billing the importer later. The exporter is relying fully upon the financial creditworthiness, integrity, and reputation of the buyer. This method is used when seller and buyer have mutual trust and a great deal of experience with each other. (J Madura 2006). TOTAL Zimbabwe has parents in France, whilst ENGEN has parents in South Africa. Management of these companies indicated that they received fuel on consignment and open account from their parent companies which they would pay for after selling the fuel on the local market. ZUVA, formerly BP, was bought by locals and the company had a strategic supplier (Strauss Logistics) which supplies them with fuel on consignment as well. These 3 companies have thus

relied on parentage and historical background to remain in business. Prior to the de regulation of the industry, these companies were the only ones in place for the distribution of fuel, so they put up most of their infrastructure during that time. These companies thus had a head start when the fuel sector was completely de-regularised.

Liquidity constraints are not a big issue with these 3 companies because of their relationships with their parents. The way they are operating however brings alternative approaches to some oil companies that may be facing liquidity challenges, i.e. the use of consignment stocks and open accounts. These would however require strategic alliance relationships with suppliers.

4.2.2.3   Collapsed Oil companies

During the period 2008 to 2013, the oil industry lost 90companies. In 2008, there were 120 registered oil companies. That number has reduced to 30 as at July 2013. The researcher was concerned with the high number of collapsed companies and sought to establish whether liquidity was the main cause of their collapse as widely asserted. The researcher then obtained the register with contact names of the representatives of these companies from the Ministry of Energy and Power development and arranged for face to face interviews with 10 of the representatives. Out of the chosen sample of 10, there was a response rate of 50%. The other representatives were too embarrassed to be associated with failed companies and thus did not want to take part in the study. The 5 companies that took part indicated that they did not want their identities to be revealed and they indicated they would only be interested in filling the questioners without their details.

The researcher considered major reasons that have been advanced by different scholars on the reasons causing why companies to collapse and sent a questioner with rating scales for the respondents to fill in.

In his book Small Business Management (published by West Publishing Co.), Michael Ames gives us the following reasons for small business failure: Lack of experience, Insufficient capital (money, Poor location, Poor inventory management, Over-investment in fixed assets, Poor credit arrangement management, Personal use of business funds and Unexpected growth. Gustav Berle in The Do It Yourself Business Book (published by Wiley Co.) adds two more reasons to Michael Ames' list namely Competition and Low Sales. The researcher focused on the following seven reasons are requested respondents to rate the reasons for their respective companies collapse.

The results of the companies that responded are tabulated below;-

Table 4: Responses from collapsed firms

Reason	0 (Not a factor at all)	1 (A factor to a limited extent)	2 (A factor to a very large extent)
Poor management	20%	20%	60%
Lack of experience in the oil industry		20%	80%
Lack of focus	100%		
Lack of knowledge about competition		100%	
Declining market	100%		
Bad debts and lack of debt settlement by customers	20%	20%	60%
Low profits		20%	80%
Failure to differentiate	100%		
Poor cash flows			100%
Inadequate finance (lack of LC)			100%

The researcher noted that most of the collapsed companies were small with annual revenues below $5 million during their time of operations.

All the respondents indicated that they had closed shop because of poor cash flows and inadequate financing. They indicated that when the industry formed the National Procurement Committee (NPC), which was a grouping of all oil

companies in 2007, this provided a cushion on their businesses. This committee managed to collectively raise an LC for the whole industry with local bank. The suppliers of product would then deliver the product to Msasa depot against the back of this LC. The local bank would pay the supplier for the shipload of product in advance. Oil companies would then pay the bank for specific small quantities of fuel they wanted to sell and pick the product from Msasa for delivery to their customers. Oil companies used to benefit from this arrangement in that; by having the fuel at Msasa, they would save on delivery time; no individual company had to worry about bringing in ship loads from the high seas as the industry collectively took care of this. In 2009, however the NPC disbanded and oil companies started importing fuel individually. The NPC split was as a result of other companies that had found other methods of bringing fuel into the country and they started doing this on outside the NPC structures. This reduced the number of uptakes for fuel procured under this arrangement and it then became unviable for the bank. Most of the smaller oil companies who could not raise funding to procure fuel on their own collapsed. The developments in this sector are also in tandem with research carried out elsewhere. In France, Musso and Schiavo (2007) also provided empirical evidence on studies done on French manufacturing firms over the 1996-2004 period which suggested that; (i) financial constraints significantly increase the probability of exiting the market; (ii) access to external financial resources has a positive effect on the growth of firms in terms of sales, capital stock and employment; (iii) financial constraints are positively related with productivity growth in the short run. Earlier research by Carpenter and Peterson (2002) in the United States of Africa (USA) as quoted by Saridakis, Mole and Hay (2007), indicate growth is affected by finance.

The respondents also indicated other reasons for the collapse of their businesses and these included, poor management (60%), lack of experience in the oil sector (80%), low profits (80%) and poor bad debts management (60%). Most of these collapsed firms were run by individuals or along family lines. The respondents indicated that there was therefore a thin line between family issues and business issues and as a result the owners used to take part of the revenues generated

from the business for private consumption. Some indicated that they realised that the fuel sector was a volume based business when they were in it. Oil companies can earn around $0.05 per litre of product sold, after having spent about $1.29 to procure and deliver the product to the forecourt. The return was not competitive if one fails to push huge volumes. In addition fuel is a volatile product with price fluctuations on the market. Product losses due to evaporation and sometime pilferage during transit or at the forecourt were some of the reasons given for collapsed businesses. Whilst all the respondents attributed their collapse to lack of finance, these other reasons to do with entrepreneurship skills also need to be taken into account. According to Levinthal and Myatt (1994) there are two critical factors that affect a firm's success. These factors are initial conditions and the core competencies and strategic assets. This is supported by Barney (1999) who looks at resources from the resource based view (RBV) perspective. Barney states that the resources which a firm owns or to which it has access form the basis of its strategy. Whilst most research seems to conclude that liquidity constraints negatively affect growth of firms, Bhide (2000) brings entrepreneurship dimension into the fold. Bhide studied the fastest growing 500 firms in the USA. He concluded that cash strapped entrepreneurs used their ingenuity to overcome their constraints and build their businesses. Getting over the liquidity constraints just showed their entrepreneurial ability. He opinions that meager funding forces entrepreneurs to conduct low cost experiments that help resolve market and technological uncertainties' and prepare the ground for subsequent large scale investment. (Pg 357). Mustar et al (2006) also point out that it is not so much the absolute resources but the relationship between the available resources and whether they are sufficient for the business model for which they will be used. There is some merit in this argument in that most of these indigenous owned oil companies started off at a n equal footing, with all oil companies getting fuel from the same source (through the NPC). Other companies like Sakunda, Redan, Comoil, Trek have survived and continued to grow. This indicates their ability to adapt as a result of superior entrepreneurship skills.

4.2.2.2 Measures taken by surviving oil industries to ensure growth and survival

According to Praci (2001), using Porter's 5 forces analysis managers can search for options to gain competitive advantages for their companies. Industries are unique and strategies will depend on the competitive forces within that industry. The aim is to lessen the competitive forces power. The following figure below provides some general examples.

Table 5: Responses to Porter 's 5 forces model

Diminishing the Suppliers bargaining power	Reducing Customers bargaining power
Enters into partnerships Manage the supply chain Get knowledgeable about supplier costs and operations Increase supplier dependency on the organisation Acquire a supplier	Partner with customers Manage the supply chain Increase loyalty Increase incentives and value added Move purchase decision away from price Cut put powerful intermediaries (go directly to customer)
Minimizing the threats of New Entrants	Reducing the Threat of Substitutes
Increase minimum efficient scales of operations Create a marketing / brand image Create patents and protectintellectual property Create alliances with linked products / services Secure exclusivity contracts with suppliers Secure exclusivity contracts with distributors Engage in retaliation tactics	Legal actions Increase switching costs Alliances Customer surveys to learn about their preferences Enter substitute market and influence from within Accentuate differences (real or perceived)
Reducing the Competitive Rivalry between Existing Players	
Avoid price competition Differentiation Acquire competitors Focus on different segments Alliances with competitors	

Adapted from the article by Praci (2001)

From the responses obtained from the active oil companies indications are that there are applying Porter's five forces model to ensure survival and growth.

To reduce the suppliers bargaining power, the dominant firms in the industry have sought to manage the supply chain, through partnering with suppliers, having fuel delivered on consignment or open account as is the case with ZUVA,

TOTAL and ENGEN. Sakunda indicate that over and above the L/Cs that they have, they have gathered knowledge of supplier costs and methods and as a result the company was now importing 60 % of all products sold in Zimbabwe and reselling some of it to smaller oil companies. These alliance have also reduced the threat of new entrants in that the dominating firms are now tying themselves with suppliers and distributors with contracts including caveats guarding against suppliers ability selling to other oil companies. Increased banding activities and improving efficiencies in operations are also some of the strategies that oil companies have embarked on. e.g. Redan, Sakunda, TOTAL and ZUVA service stations are professionally branded to build on customer loyalty. Dominant companies have also taken over sites that used to be operated by those companies that collapsed e.g. all Wedzera sites have been taken over by Redan.

4.5   Summary of findings

Empirical evidence has shown that liquidity constraints are an important aspect in determining the growth and survival of oil companies in Zimbabwe. This is tandem with other researches done elsewhere. This study has however demonstrated that other that liquidity constraints only, entrepreneurship skills are very important in ensuring growth and survival of companies. Where other companies have failed, others have remained strong and even experienced phenomenal growth due to the business acumen exhibited by management. Audia*et al* (2000) state that an organisation must anticipate and respond to environmental changes to ensure competitiveness and survival by selecting strategies that enable a better fit with the environment. The collapsed oil companies failed adapt to change operating conditions after the collapse of the NPC. The surviving organisations made use of their core-competencies to their advantage in order to generate more business. According to Markides and Williamson (1994) the core competence of an organisationenables it to achieve competitive advantage and generate high performance.   They are however important lesson to be learnt to policy maker on how to ensure credit lines are

easily accessible. Also to Oil companies existing and prospective, lessons on how to ensure firm growth and survival despite the liquidity challenges facing the nation.

4.6 Conclusion

This chapter centered on presenting the research finding and linking them to the theory and available empirical evidence.In chapter 5, the researcher shall cover the conclusions made through the research, the recommendations thereof, the study limitations and areas for further research.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Using the information obtained from the findings discussed in chapter four, the researchermakes inferences and conclusions of the study in this chapter.In addition, this chapter also makes recommendations and areas of further study.

5.1 Conclusions

5.1.1 Impact of lack of L/Cs on growth and survival of oil firms

One major finding of this study is that liquid constraints are a major determinant in the survival and growth of oil companies. These financial constraints play a significant role in determining the probability of firm's survival, size, and profitability. The research on all the oil companies that collapsed showed that all of them attributed liquidity constraints and the lack of L/Cs to their collapse. The existing dominating firms all have access to funding either from financial institutions or from parent companies. Through access to such funding there have been able to grow their businesses.

5.1.2 Importance of entrepreneurship

Another significant finding of the study was that whilst liquidity constraints play a major role in the survival and growth of firms, the managerial acumen of entities is also an important in ensuring firms survival and growth. Oil Companies with strong managerial skills have been able to come up with panaceas to overcome the liquidity constraints affecting their companies through other strategies such as supply management strategies e.g. consignment stocks, strategic partnerships with suppliers, joint ventures and vertical integration with suppliers amongst others. Other oil companies who have been able to think outside the box have gone on to grow big by implementing these strategies. It is important for oil companies to employ competent management that can think outside the box to come up with other strategies to ensure firm survival and growth when faced with funding constraints.

5.1.3 Supply Chain Management

Strategic alliances with suppliers are very important in the fuel industry. The dominant firms in the industry all have links with international suppliers.

5.2 Recommendations

The research provides the following pertinent recommendations for both policy and management practice.

5.3.1 Improving liquidity on the market

The banking sector plays a vital role in economic growth through the efficient allocation of resources via financial intermediation. The Zimbabwean banks have however been hampered by liquidity constraints to avail funding to companies. There is therefore need for monetary policies to institute liquidity enhancing policies to ensure that the local banks get funding. These measures could include amongst others;
- mobilising Diaspora remittances and off shore credit finance,
- reduction of bank charges to encourage local deposits

- financial inclusion of the unbanked sector,
- Implementing policies to encourage foreign direct investment flows.

The government could also do well to address concerns made on its governance issues, land reforms and indigenisation policies as these have been a deterrent to outside funding and have cut off the much needed foreign funds.
If these measures are implemented, they may result in increased flow of funds into the local bankswhich they can then on lend to the productive sector, including the oil industry which plays a key role in providing the much needed fuel to the economy.

5.3.2 Adopting other survival an growth strategies

Management should be proactive and carry out SWOT analysis to identify opportunities in the fuel market and take advantages of the opportunities and mitigate against the threats. In addition innovative thinking is now required to explore other initiatives to ensure fuel is imported. These initiatives include strategic alliances with suppliers, mergers and acquisitions, joint ventures, vertical integration with suppliers amongst others.

5.3.3 Mergers and acquisitions

Small firms should consider merging their businesses, because the fuel sector is a volume based business. Another option might be the revival of the National Procurement Committee (NPC) or some similar structure whereby small companies jointly procure product and benefit for economies of scale.

5.4 Study Limitations and areas of further research

The time factor was a limitation in carrying out this research. In addition some respondentswere stingy with information for confidentiality reasons and fear of providing their strategies to competition.
The research only focused on only 5 out of the 90 oil companies that collapsed and as such the reasons for their failure to remain in business may be

inconclusive since more solid inferences may be made by looking at the other 85 that were not considered in the study.

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Questionnaire on why your organisation collapsed

   a) Your company used to trade in fuel during the period 20XX to 20XX. You are no longer an active player in the sector. What do you attribute this to?

   _____
   _____
   _____
   _____
   _____
   _____
   _____
   _____
   _____
   _____

   b) Was availability of liquidity the major reason for your firm's collapse? If so how?

   _____
   _____
   _____
   _____
   _____
   _____

c) The following are the major reasons for business failure. On the provided scale, how you say your organisation was affected on a scale of 0 to 3. Tick your response in the box provided

Reason	0	1	2
	(Not a factor at all)	*(A factor to a limited extent)*	*(A factor to a large extent)*
Poor management			
Lack of experience in the oil industry			
Lack of focus			
Lack of knowledge about competition			
Declining market			
Bad debts and lack of debt settlement by customers			
Low profits			
Failure to differentiate			
Poor cash flows			
Inadequate finance (lack of LC)			

d) Give reasons for the answers you rated as 2

----

e) How would you rate your average company turnover when you were trading? Tick the appropriate box

Below $500,000	Between $500,001 to $1,000,000	$1,000,001 and above

f) Did you access any borrowings from any financial institution? If your answer is yes, then indicate on the table below the range of your average annual borrowing.

Below $100,000	Between $100,000 to $1,000,000	$1,000,000 and above

g) What where the constraints you faced in accessing borrowings?

	YES	NO
Cumbersome collateral requirements		
High interest rates		
Low profit margins		
Lack of trade reference		

h) What was your average when you trading? Tick the appropriate box

Below 0%	Between 0% and 49%	Between 50% and 99%	Above 100%

i) During the time you were, how much have you spent on CAPEX (e.g. service station construction, acquisition of delivery fleet). Tick the appropriate box.

Below $100,000	Between $100,001 to $500,000	Between $500,001 to $1,000,000	Above $1,000,000