

# CHAPTER 5

## Research Results

### Table of Contents

Section	Headings	Page
5.1	Introduction	86
5.2	Questionnaire Responses	87
5.3	Interpretation of Data	88
5.3.1	Background Information	89
5.3.2	Organisational Factors	91
5.3.3	Environmental factors	106
5.3.4	Industrial factors	129
5.3.5	Control Factors	150
5.4	Conclusion	155

## 5.1 Introduction

We have journeyed from the conception of the topic for this research project through to the extensive fieldwork, which involved a myriad of interactions on data gathering. It is time to pause and reflect on the key messages that came out of these insightful discussions, synthesise them so that we can find justifiable answers to the research question, before soldiering onto the last stretch of the journey by providing meaningful recommendations and conclusions.

That research question, as stated in chapter 1, is:

***What are the key theoretical and industry drivers that underpin an effective local responsiveness strategy for the Oil Industry in SADC in managing the subsidiary within the rules of the head office?***

This chapter contains the enriching views expressed by the sampled research participants, which were aimed at addressing this research question. These were obtained via a questionnaire which was structured around Luo's (2001) framework. The intention of the researcher in so doing was to keep the fieldwork phase aligned with the literature review, but also to keep the interviews focused so that the consolidation of data could be better facilitated.

This chapter also contains the "Researcher's reflection" at continual intervals. The objective of this is to provide some meaningful breaks so that the reader can better assimilate these results whilst labouring through this extensive chapter.

Lastly, except where otherwise stated, all the Figures in this chapter have been extracted from corporate documents such as Board Minutes and/or business plans. Alternatively, they will have been compiled by the researcher based on these corporate documents.

## **5.2 Questionnaire Responses**

The following sequence was followed in order to ensure a good cooperation and positive response from all the research participants.

- For each invitation the covering letter was attached, setting out the tone for the interview; this was done to everyone including those participants who the researcher normally interacts with during business encounters;
- The confidentiality clause was explicitly discussed with them, and this is particularly due to sensitivities of the oil industry and the fact that the researcher was working for their competitor. In addition, the research would include various organisations within the oil industry;
- All the respondents have first hand experience of working at the SADC region, most of them have either been or still are country managers of some of these subsidiaries. A bonus was that some were now operating from the head office (viz. South Africa, or the UK).
- The country manager of the sampled local oil company was contacted in each of the five countries, viz. Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe. Unfortunately, none of the LOC's in Zimbabwe and Mozambique responded. The two LOC's that responded positively operate in more than one country, which makes their input more enriching to this research.

### 5.3 Interpretation of the Data

Contained hereunder is an overview of data which continues around Luo's framework – Table 5.1 illustrates. It is worth noting that questions 1 and 2 of the survey questionnaire are not included in this Table since they are more of a background nature rather than part of the Luo (2001) framework. They also served as an “ice-breaker” during the interviews.

**Table 5.1**

Alignment: Luo's Framework vs. Questionnaire				
Question No.	Type of Factor	Factors Covered	Drivers of the Factors	Page No.
03	Organisational	Previous Experience	No need to categorise	79
04		Host Government Support	No need to categorise	79
05 - 08		Business Network	Co-existence	82
			Cooperation	83
			Competition	84
06 - 07			Coopetition	85
08	Market Orientation	No need to categorise	86	
09	Environmental	Environmental Complexity	Business perspective	88
Country perspective			96	
10-11		Business Practice Specificity	Logistics	99
			Refinery	100
		Cultural Distance	No need to categorise	100
12 - 13	Industrial	Competition intensity	Volumes	102
			Market share	103
			Cost Pressures	107
14 - 15		Demand Heterogeneity	Commercial Sector/Customers	114
			Retail Sector/Customers	115
16		Component Localisation	No need to categorise	117
17 - 18	Control	Control Flexibility	Skills recruitment & retention	118
			Delegations of Authority	119
			Board of Directors	120

It is worth repeating that in honouring the confidentiality and non-disclosure obligations the companies and people's names have throughout this research report not been mentioned.

A total of 17 questions were asked using the questionnaire as a research instrument. In order to facilitate the reader's assimilation of these data results the researcher has provided a reflection at the end of some of the subsections, which are complementary to the conclusion.

### **5.3.1 Background Information**

#### **Question 1: In which of the 5 countries does your organisation operate in the SADC Region?**

The 3 international oil companies operate in all 5 countries. On the other hand, the first LOC operates in Zambia and Tanzania with presence in some other parts of East Africa; the second LOC operates in Zambia and Malawi only. But for purposes of this research the term local oil company includes the regional as well as independent companies respectively. The rationale being that there is much commonality in the way these three operate, especially in comparison to the international oil companies that have the head office as part of their organisational set up.

**Question 2: In which areas of the value chain does your organisation engage in?**

- All three international oil companies participate in each of the supply value chain stages, viz. refining, storage and handling, distribution, as well as sales and marketing. This means they have the space to improve profitability by controlling costs in other areas of the value chain. These include the hosting of other oil companies at their storage facilities and charge them a storage and handling fee, and the co-loading of their vessels when importing product from South Africa.
- It emerged that all the three local oil companies are mainly in distribution and marketing of the supply value chain. Their cost saving is achieved in several ways, including that:
  - They tend to deliver directly to the customer, without incurring storage facility costs;
  - They tend to buy refined product on spot terms rather than bind themselves into contracts with product importers. That is, they would go to the port and scout for surplus product and bargain for a cheaper price; their higher risk appetite implies that they do not mind running out of product and failing to supply their customers. They have no image to safeguard.
  - There are limited storage facilities and certainly no refinery facilities, which means the economies of scale do not play as significant a role as is the case with international oil companies. But this competitive disadvantage is outweighed by their (i.e. LOC's) lower fixed cost base; they still reap better returns on investment for the shareholders. In addition, their delivering directly to the end customer renders storage facilities less important.

- The criteria they use for assessing acceptability of a truck is very minimal and they can thus opt for the cheapest transporter for their product. Similarly, where it's their own truck maintenance costs are relatively lower since there is little regard for HSSE issues. (Again, they are less concerned about damage to corporate reputation in comparison to the IOC's.)  
Their flat organisational, and related quick decision taking, serves as an overarching facilitator that sustains the LOC's manner of conducting business.

### **5.3.2 Organisational Factors**

The Table 5.2 below has been compiled by the researcher so as to provide a summary of the views expressed by research participants with regards to organisational factors. The purpose was to introduce the key points that have been raised around these organisational factors.

It's noteworthy that the unique colours that denote the various sub-sections serve purely to enhance clarity for the reader of this research report. For instance, organisational factors relate to previous experience, host government ties, business networks, and market orientation.

Further, host government discussion focuses on conflict of interest and price-fixing whereas business networks focus on benefits and challenges as well as types of interactions with competitors. The rest of the Table then follows in that same trend.

## Managing the subsidiary within rules of the head office - a case for the Oil Industry in the SADC Region

Table 5.2

Organisational Factors	Drivers	Sub-sections that are discussed in detail						
	Previous Experience	Bad	Good					
	Host Government Ties	Conflict of Interest		Price fixing				
		Tax rules	Product Borrowing	Negative margins				
	Business Network	Co-existence	Cooperation			Competition	Coopetition	
			Depot Storage	Refinery	Modes of product transfer	Security of product supply		
		Benefits	Challenges					
		Advisory Body	Unity of business sector	Govt. don't like Forum	Industry regulation			
	Market Orientation	Production for Exporting vs. Local consumption						

### 5.3.2.1 Previous Experience

**Question 3: In what ways does previous experience within the local market impact your business?**

All the participants felt that regardless of whether the experience is bad or good but it does inform how their strategies are implemented. They raised the following views:

- Foreigner Liability: The majority of IOC's (65%) asserted that there is an inverse relationship between experience and the "foreigner" liability that IOC's tend to carry. That is, the suspicious attitudes of the various stakeholders (including customers, regulatory bodies, and communities) from the local market tend to decrease as the IOC's experience accumulates and its business decisions being accordingly aligned. And the benefit deriving from this is that the IOC can then better have influence on policy formulation, and its social responsibility initiatives can be appreciated more.



- **Poor Technology:** All IOC and 73% of LOC respondents cited poor technology. They claimed that the poor electronic systems imply a weak integrated information management function for regulatory bodies – including weakened anti-corruption interventions. They further asserted that head office does not fully appreciate this reality and inherently extended delays when it comes to the processing of business requests and retrieval of information. And that it puts strain on resources – time, money, and human – when it comes to deadlines for monthly management reporting to head office.
  
- **Market Exits:** All IOC and 59% of LOC respondents cited the inverse correlation between length of prior experience and the propensity to exit from the market. They asserted that since more prior experience leads to a stronger bond with stakeholders such as the government, exiting the market tends to create animosity from the host government, which becomes anxious about potential job losses. This tends to have a negative spin-off on the IOC's operations in other markets (or countries). Effectively, sentimental issues tend to overshadow the business imperatives.  
  
The LOC respondents however claimed that whilst this is the case it does not have as much impact on their operations since they operate on a fewer number of countries compared to the IOC's.
  
- **Cultural distance:** The misalignment between what the head office perceives and what is actual reality in the local market - and understood by the subsidiary - was cited by all IOC respondents. They asserted that by being conscious of the various cultural distance aspects the head office could better support the subsidiary in efforts towards making the IOC a good ambassador of its home country. This matter was viewed from various angles, viz.:

- Seventy-one percent asserted that an IOC's deeper understanding of the local market gives other multinational companies more confidence in the IOC, and they then tend to make more business deals with its (i.e. IOC's) subsidiary, especially global accounts;
- Sixty-nine percent of respondents cited country risk profiling, i.e. the longer the experience the more efficiently the IOC can profile various risks pertaining to its business. In turn, this improves the quality of business decisions taken. That is, opportunities for business growth or development can be better evaluated in the proper context of the local market.
- Resistance to change was cited by 77% of respondents, asserting that the longer the experience the easier it is to distil the underlying causes of staff resistance. For instance, information-hording tends to be power-maintaining tool, and that the subsidiary needs to diffuse knowledge as much as possible.

### **5.3.2.2 Host Government Support**

#### **Question 4: How does the host government contribute towards the creation of a business friendly economic climate?**

The various governments were described by the majority of respondents as generally supportive from the perspective of formulating policies and regulations. That is, that they are not only business friendly, but responsive to the events, e.g. a fire that erupted in a Mozambique retail service station. In part response, a legislative piece is under discussion and will be promulgated into law in 2010; it is legislation that is aimed at enhancing the safety standards within the oil industry.

However, the inherent government bureaucracy tends to frustrate investors particularly from a conflict of interest as well as regulatory framework perspectives, viz.:

#### **5.3.2.2.1 Conflict of Interest**

- **Business Interests**: Seventy-three percent of the respondents indicated that in all five countries senior government officials are believed to be holding business interests in the road transport sector; this conflict of interest then paralyses efforts towards an improved rail infrastructure. Similarly, 60% of all the respondents cited that prosperous people tend to be linked to politics, as a result decisions are based on their preferences;
- **Product Procurement**: Eighty-five percent of the respondents cited the government's involvement in the procurement process as a challenge. They claimed that the government owned companies – Noczim and Imopetro – are coordinating the importation of fuel in an unfair manner. In addition, that the government's sense of independence when resolving oil industry challenges tends to be impaired.
- **Product Storage**: On Zimbabwe, specifically, another concern relates to product storage was raised by 65% of respondents. Noczim has a responsibility to store product on behalf of the oil industry. The concern was that at times oil companies would find their product having been unilaterally utilised by Noczim, without even informing the respective owners thereof. And this problem was attributed to the fact that Noczim is also involved in the down-stream, viz. the marketing and selling of fuel to end customers. Although such product would ultimately be replenished but oil companies face the risk of losing their customers due to product shortages.

### **5.3.2.2.2 Implementation of Regulations**

- **Duties and Taxes:** All respondents representing the IOC's cited tax on the in-transit stock as a problem. That is, that in-transit stock that is destined for another country remains duty free for strictly 30 days, e.g. via Tanzania through to Zambia. However, there is no mercy when this deadline is exceeded and no merit-of-the-case is considered.

There is also a unanimous view that this is used as a weapon for ensuring that such product is circulated within the country (e.g. Tanzania) so as to alleviate product shortages. This view stems from the fact that once such product carries duties selling it at its intended destination (e.g. Zambia) becomes less attractive since it carries a higher cost. In addition fuel is, of course, deemed easiest source of making revenue for the government. However, none of the LOC respondents raised a concern around this matter.

- **Managing Breaches:** The IOC (63%) and LOC (25%) respondents cited the poor handling of regulatory breaches as a problem. This specifically relates to the regulation which stipulates that if an organisation is accused of having breached the law it must pay the penalties before lodging an appeal. This is in addition to the fact that penalties cannot be offset against refunding – if any – that is due to the investor or organisation.
- **Price Reviews:** Fifty-six percent of respondents raised a concern with regards to Mozambique, whereby the government no longer reviews its prices on a monthly basis – based on the cost of (fuel) imports. By keeping such prices steady for an extended period some oil companies end up operating at negative margins; others' service stations run dry to a point that the dealers close their business and customer long queues similar to the Zimbabwe scenario become common.

However, the industry association, Mozambican Association of Petroleum Companies (Amepetrol), continues to engage the government with a view to elevate these challenges.

### **Reflection by the Researcher**

Clearly the government in all the sampled countries does have the will to create a climate that is adequately conducive for the investors, with its policies being business-friendly. And this is something which the head office can relate to since its policies and rules are in line with these good intentions. However, some of the local market challenges are radically different from the South African and/or developed market environment, and actually to an extent that undermines the host government's good intentions. This poses a dilemma to the head office since such challenges are unique to these respective local markets.

The question is:

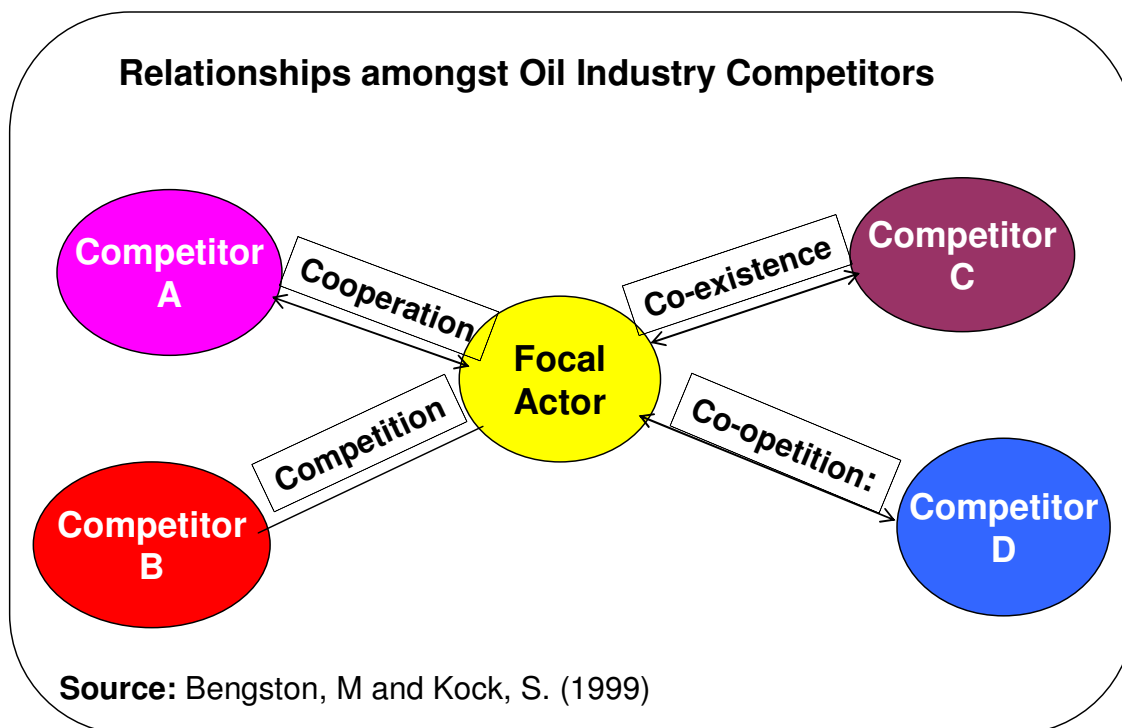
- How does the head office determine the appropriate level of local responsiveness required without overly compromising its global standards and policies;
- Does the IOC take the regulatory bodies head on for violation of the locally set government policies;
- To what extent does the head office allow space for its subsidiary staff to lead local responsiveness initiatives?

### 5.3.2.3 Business Network

**Question 5: Describe the manner in which business networks operate in your market, viz. both within the oil industry and across industries?**

All 57 respondents affirmed the value of a strong and effective business network, but noted that such networks are only at a conceptual stage in countries such as Malawi. Their value-add is that areas of common interest would be discussed at regular meetings, which are attended by both the IOC's and the LOC's. These include negotiation of margin adjustments as well as formulating strategies of minimizing product supply shortages in the respective countries.

The views gathered from various respondents enabled the researcher to document them using framework or model of Bengston and Kock (1999) – refer to Figure 5.1. It illustrates the types of competitor relationships within the oil industry have.



**Figure 5.1**

[**Note:** The Focal Actor refers to the IOC who is the “main-player” in interacting with the various competitors; and these have been classified into four type of relationships].

These multiple relationships were found to apply in the following manner:

#### **5.3.2.3.1 Co-existence**

The majority of respondents cited the exchange of information relating to market share in both the regulated and the deregulated markets, respectively. The power-play arises when it comes to price cuts, viz. the IOC that is a market leader in terms of volumes would dictate the price. Similarly, the LOC's would leverage their low cost structure and cut their prices, and thus challenging the IOC counterparts.

#### **5.3.2.3.2 Cooperation**

All the respondents unanimously agreed that although the industry is characterised by fierce competition this does not take away the need for cooperation. They cited 6 areas of cooperation, viz. that oil industry players tend to share facilities such as:

- Storage at the depot: The tenant would be charged a specific rate per throughput. There is usually no agreement in place to manage this service; where there was one it was quite outdated and never renewed – an indication of high trust between the host and the tenant.
- Refinery: A fee is charged to all oil companies that receive product from the refinery, e.g. in Zambia. In countries where product is imported via a single company consortium or single company again there would be charges levied to recipients of such product.

- Pipeline: where one company owns the pipeline others would have access to it and of course pay a stipulated fee for using it.
- Vessels and rail tank cars: The co-loading of product parcels for the various competitors leads to their reaping economies of scale on imported product. The same applies where product is exported to another destination – e.g. Tanzania to Zambia.
- Bulk trucks: One company would do deliveries on behalf of its competitor. However, this was found not to be a norm in the countries covered in this research; instead a company in need would rather hire an independent transporter.

The majority (63%) of IOC respondents felt that in the context of SADC head office could adopt local responsiveness by allowing the “borrowing” of the competitor’s trucks, when the need arises. They asserted that such flexibility could lower costs in that they after all have a cooperative business activity, and would achieve this in a similar way as sharing of pipeline, vessel, storage facilities, and refinery services. However, the head office cites HSSE standards as a concern and the reason for its reluctance – despite the fact that such trucks would be belonging to a fellow IOC.

- Security of supply: Some of the international oil companies have now been given authority to source product from the local oil companies. This has turned out to be a cheaper source of product compared to importing from either South Africa or the Arabian Gulf. However, there is a risk of product adulteration, which the IOC’s mitigate through laboratory testing of product samples for quality conformance.



### **5.3.2.3.3 Competition**

- **Pricing & Advertising:** Sixty-eight percent of respondents indicated that from the consumer's perspective fuel is the same despite the brand under which it is sold; so the battle is pursued via strong advertising by the IOC's. They also stated that against this background price was again the differentiator in deregulated markets. However, in regulated markets price would apply only in products such as lubricants and greases, but not fuels (i.e. petrol and diesel).
- **Cleaner Fuels:** The majority (71%) of IOC respondents and a minority (34%) of LOC respondents cited environmental friendliness as the competitive factor, e.g. that the introduction of clean fuels is an important factor especially in light of the fact that consumers are becoming more conscious about pollution. For instance, one international oil company supplied a cleaner diesel (viz. 50PPM) which comes at a steep cost and placing itself at a competitive disadvantage.

Whilst this is a good initiative from an environmental perspective, it is an initiative that is ahead of times in these respective SADC markets. Rather, the IOC respondents asserted, the head office should work closely with the government in progressing the implementation of related legislation. In that way, the necessary investment in equipment, which is undoubtedly significant in terms of cost, would be incurred by all parties – thus levelling the playing field. Otherwise, doing it alone is unwise given the limited market size limits economies of scale which lead to minimal returns on investment.

- **Technology**: Sixty eight percent of IOC respondents asserted that the fact that prices change as many as three times a day in a deregulated market poses a threat. This is due to the fact that their IT systems are not geared up to accommodate such rapid updating. In other words head office's reluctance to allow a subsidiary to acquire a customised IT package inhibits the subsidiary's responsiveness to local market conditions.

#### **5.3.2.3.4 Coopetition**

Seventy percent of the respondents cited the borrow-loan of product as an example of how the business networks operate in the oil industry. In other words, when one company has more demand than supply to customers then it would borrow product from its competitor; whilst they are competing for the same pool of customers but they can support each other in time of need.

The minority of the respondents cited the co-loading of vessels, which leads to economies of scales being reaped by the respective international oil companies. This is also in light of the fact that the product demand in the SADC region is normally lower compared to South Africa.

#### **Question 6: What are the benefits of these networks in your market?**

All research participants, i.e. from LOC's and IOC's alike, acknowledged that business networks come in the form of an individual having contact with various stakeholders for a common interest.

The majority of IOC respondents believe that the nature of such forums is at best an advisory body or sounding board for the host government on policy formulation and various issues that affect the industry. Such issues include lobbying for the margin adjustments in the petroleum products' cost build up.

It was clear therefore that both the IOC's and LOC's do find benefit in the business forums, but they only differ on whether some of the issues raised by the forums are realistic or not. Such issues are included in the challenges as addressed on Questions 7 below.

**Question 7: What are the challenges faced by business networks in your market?**

The focus in this case referred to forums that tend to be formed by the industry players or even the business community at large.

Eighty percent of all the respondents indicated that the key challenge to the effectiveness of the oil industry forums was that organisations often do not speak with one voice. They claimed that a consensus position would be taken at industry meetings, but some organisations would separately present their unique case to government – often at variance from the consensus position.

Such conflicting views often include the following:

- In all the sampled countries the LOC's want the government to play a bigger role in regulatory matters such as the setting of prices and wholesale margins, including the fixing of storage facility fees, whereas international oil companies don't.

- The LOC's are in support of the government stance – e.g. Zambia and Zimbabwe - to discourage such forums, whereas the IOC's believe these actually receive a better listening from regulatory bodies that deal with oil industry issues. In this regard, LOC's fear the formation of cartels by the IOC's.

It emerged from 73% of the respondents who represent the IOC's that the subsidiaries actually share the concerns of the LOC's with regards to a bigger role of government. However, because the head office does not share such sentiments the subsidiary is caught in a difficult situation and cannot support the LOC's in pursuing such issues. They also cited this as one of the reasons for IOC's to be viewed with suspicion and regarded as foreign, regardless of the length of time they may have operated in the local market.

Similarly, 65% of all the respondents highlighted that such differences of opinion are not just between the IOC's and LOC's; that believed also prevail between LOC's too, as well as between the oil industry and business community at large. In addition, that the host governments at times take advantage of this inadequate unity by either forging ahead with implementing policies or stalling on some decisions – whichever suits the government. These business concerns are at times even hardly taken note of.

### 5.3.2.4 Market Orientation

**Question 8: What proportion of your product output is exported outside the country?**

The five sampled countries are net importers of oil and/or petroleum products, meaning that none of them are export oriented – Table 5.3 below reiterates what Table 1.1 contained. And whilst Zambia and Tanzania have refineries the output hardly meets the demand within their local market. Hence they have to import product via a tendering process, sharing a vessel – also known as co-loading - or a dedicated importing company.

**Table 5.3**

Market Orientation of the Oil Industry					
Country	Petroleum ('000 Barrels per day): 2004			Crude Oil: 2005	
	Production	Consumption	Net Exports	Reserves (million barrels)	Production ('000 Barrels/ Day)
Malawi	0.0	6.0	-6.0	0.0	0.0
Mozambique	0.0	14.1	-14.1	0.0	0.0
Tanzania	0.0	27.8	-27.8	0.0	14.9
Zambia	0.1	14.4	-14.3	0.0	23.8
Zimbabwe	0.0	18.0	-18.0	0.0	0.0

**Source:** Energy Information Administration, Oil & Gas Journal (2006)

Against this background, all participants asserted that market orientation is not relevant for purposes of this research. That is, in as much as there would be cross-border sales of refined product between the countries this does not constitute exports; there is little marketing and strategy adjustment involved. It is merely a matter of an organisation bridging product needs of its sister organisation in another country.

### **5.3.3 Environmental Factors**

The Table 5.4 below has been compiled by the researcher so to provide a summary of the views expressed by research participants with regards to environmental factors. The purpose was to introduce the key points that have been raised around these environmental factors.

It's noteworthy that the unique colours that denote the various sub-sections serve purely to enhance clarity of the reader of this research report. For instance, environmental factors relate to environmental complexity, business practice specificity, as well as cultural distance. Further, environmental complexity is viewed from the perspectives of both the country as well as the business. The rest of Table 5.4 then follows in that same trend.

**Table 5.4**

	Drivers	Sub-sections that are discussed in detail						
Environmental Factors	Environmental Complexity	Business' Perspective	Refinery		Inbound logistics	Rail facilities		
			Capital investment	Angola's crude type		Loading facilities	HSSE	Storage Facilities
			Bulk Trucks				HSSE	Market concentration vs. demand
			Loading facilities	Size of the truck	HSSE	Life-span: Plan vs. Actual	Alternative sources of supply	
		Country's Perspective	Ports			Rail facilities		
			Compliance: International Standards	Size of the vessels	Pirates as suppliers	Rail volumes vs. Road volumes	HSSE	Product losses
			Logistics		Refinery			
	Business Practice Specificity	Purpose of logistics	Outsource vs. insource	Role of refinery	Capital investment			
		Cultural Distance	Spirit of nationalism	Personal attitude	Skills retention	Empowered Staff		

### 5.3.3.1 Environmental Complexity

**Question 9: In terms of local market what impact does infrastructure have on your business?**

To begin with, the country's infrastructure is a key consideration by foreign investors when they assess the feasibility of doing business in any country, especially a foreign country. As a result, the decision on how much resources should be allocated to the subsidiary is partly informed by nature and abundance of such resources. It is against this background that this question was deemed necessary by the researcher.

There was consensus from the research participants that the country's infrastructure was the main element of environmental complexity. Further, they unanimously asserted that it needs to be viewed from both the business' and the country's perspectives, respectively. From the organisation's perspective it encompasses manufacturing – refinery and blending plant – as well as storage facilities, transport facilities, and the marketing outlets. But blending plants, as indicated in chapter 1, have been excluded from this research.

On the other hand, the majority asserted that from the host country's perspective logistics was the key component of infrastructure, viz. rail, road, and sea. Naturally both perspectives are inter-linked and complementary. Hence question 9 was discussed from both perspectives.

#### **5.3.3.2 Business/Organisation's Perspective**

It emerged from 72% of respondents that profitability is a key determinant of how much to invest in the subsidiary' organisational infrastructure. As a result, the return on investment (ROI) is one of the measurement items in the performance contract of the country manager and his team. Necessarily, the same goes for relevant leadership that is operating from the head office.

Eighty five percent of the IOC respondents cited the misalignment between the subsidiary and the head office as the cause of this short-term view on deciding how much to invest in the local business. They asserted that it sometimes leads to inadequacy of capital budgets allocated to the subsidiary, i.e. the lower the capital invested the higher will be ROI, even though in real terms it is not that much. The remaining 20% of the IOC respondents cited host government's delays in enforcing health safety and security environmental standards to be maintained industry wide.



### **5.3.3.2.1 Refinery**

Fifty eight percent of all respondents cited demand in the market as both unstable and inadequate to justify a significant investment in a refinery. They asserted that the return on investment would be difficult to realise even on an extended time horizon. Hence it's better to simply import crude and/or refined product so that quantities are pegged to the demand fluctuations.

The minority (42%) cited Angola's crude-diet (i.e. type of crude) as incompatible with the technology of existing refineries in SADC; that despite its huge crude oil reserves neighbouring Angola cannot supply SADC refineries. In other words, the design of most refineries within the African continent, including SADC, is such that they cannot process the type of crude that Angola produces. So this option, which could have been comparatively cheaper, is not viable.

These (42%) respondents further asserted that the very reason why IOC's invest outside RSA is that demand in RSA is reaching saturation point. And because future growth lies in SADC then the head office should be more responsive to the need for partnering with SADC government in upgrading refinery facilities. They further support their view by indicating that demand forecasting of the subsidiary is often ignored by head office when the needs of RSA require more than anticipated product volumes.

However, having said that, this minority were weary that the reluctance to invest adequately cannot be based on the amount of reserves in Angola. That is, a directly related aspect is the country-to-country diplomatic ties which cannot guarantee security of supply, e.g. what if in future Angola being a member of OPEC "decides not to supply us any longer".

#### **5.3.3.2.2 Primary Transport (i.e. in-bound logistics)**

This refers to the transportation of product into the local market, i.e. refined product for consumption as well as crude oil for refinery processing. The respondents unanimously agreed that the land-locked countries such as Zambia and Zimbabwe do not reap the benefit of cost efficiencies that are linked to vessels as a mode of transport.

The majority (i.e. 59%) cited the co-loading by IOC's as the main intervention for savings on cargo costs. The subsidiaries definitely benefit from this traditional practice of IOC's. However, the minority alluded to a paradox, viz.:

- On the one hand, the potential risk of hijacking or piracy is similar to the one that occurred in Somali shores which brings down the cargo costs.
- On the other hand, for corporate reputation reasons, the head office is reluctant to use this mode of transport fearing that as IOC's they are obvious targets. And this then means that the subsidiary cannot source product at prices competitive to those of their local counterparts, (i.e. LOC's).

The IOC's participants alluded to the fact that this otherwise cost saving is offset by their high HSSE standards which are in line with the International Ship and Port Facility Security code. Again, the subsidiary has little influence over the head office's stance that only vessels that meet a minimum set of HSSE standards can be used. The majority of LOC's raised this as the source of their competitive cost efficiencies in comparison to the IOC's.

### 5.3.3.2.3 Bulk Truck Loading Facilities



**Figure 5.2**

All respondents concurred that this mode of transport is widely used in SADC due to the fact that an alternative (viz. rail) is highly inefficient. However, various views were expressed in this regard.

Economies of scale were cited as critical by 73% of IOC's and this was said to be limited by truck gantry facilities. Inadequate capital investments into the subsidiary's operations result in road gantries that have not been reconfigured to be wide enough to accommodate some trucks. Refer to Figure 5.2 for an illustration. The minority, mainly from the LOC's cited a view that is directly linked to that of IOC's, viz. the loading rate per bay which amounts to an average of 1000 litres per minute.

The implications are that:

- **Truck Size:**

The subsidiary is misaligned to the head office, viz. the latter is used to reaping economies of scale via large trucks that can deliver to more than one customer per trip. On the other hand, the subsidiary is held by constraints relating to the loading gantries that accommodate only smaller trucks – as are used by LOC's. Thus, the IOC's are forced to buy smaller trucks, something that escalates the costs since more customer delivery trips have to be undertaken despite the debilitated road conditions. A related issue is that this requires more drivers to be employed, and yet the head office would rather minimise the staff complement of the subsidiary. Compounding the problem is the long distance to some of the customers, which are based as far away as 1600 kilometres – round trip.

On the other hand the LOC-owned smaller trucks bring about cost efficiencies given that their cost structure is small. In addition, LOC's tend to deliver product directly to the end customer without having to utilise terminal storage facilities, and this enhances their cost efficiencies even more. Thus, since LOC's have more room for 'saving' they can absorb this truck-related inefficiency better than IOC's.

- **HSSE Standards:**

The IOC respondents unanimously alluded that the majority of trucks used by local oil companies are lacking in terms of HSSE requirements, including minimal maintenance too. They further acknowledged that from the subsidiary's perspective the IOC's HSSE standards are too high for an SADC subsidiary to operate sustainably. However, due to reputational concerns the head office still won't compromise.

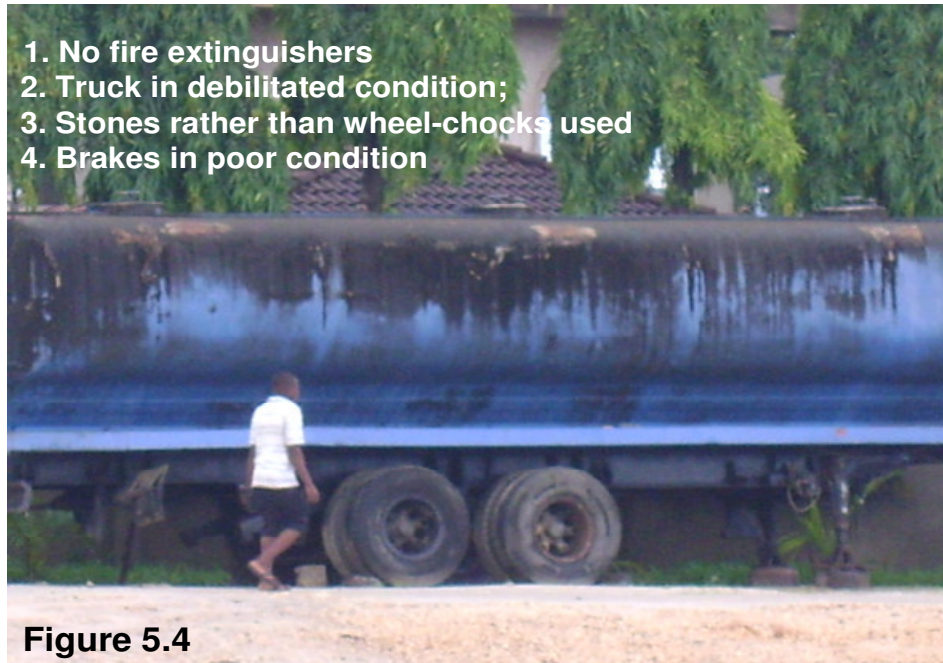
It emerged also that similar situations have arisen where an IOC-contracted transporter does not have roadworthy tyres and would borrow these tyres only for purposes of entering into the IOC depot premises to load product. Then on leaving the depot those roadworthy tyres would be returned to the owner before driving onto a distant customer. However, some of the LOC's do use such trucks which are lacking in terms of equipment such as fire extinguishers, wheel chocks – as per Table 5.3 and Table 5.4 below The same goes for customer car-park canopies.



**Figure 5.3**

Another HSSE related issue that was raised by the majority of respondents is that the actual life span of a truck is often longer than the average 15 years that it is expected to be retained for. Whilst the subsidiary understands this to be one way of keeping its operations sustainable, the head office insists on a shorter life span yet being not prepared to increase the capital spend of the subsidiary.





Similar to the truck loading situation, rail facilities - Figure 5.5 are limited in terms of both flow-rate and the number of wagons that can be simultaneously loaded. Further, HSSE facilities result in yard staff is not protected against rainy conditions.

#### **5.3.3.2.4 Rail Transport Loading Facilities**



**Figure 5.5**

### **5.3.3.2.5 Storage Facilities**

- **Maintenance of Tank-farm:**

All the LOC respondents indicated that their cost cutting measures include how they manage their storage facilities. That is, rather than be co-hosted by the IOC they would avoid storage costs and maintain their own facilities, whereby their maintenance focuses only on the interior rather than the tank exterior as well as tank farm itself.

And 62% of the IOC respondents corroborated this practice of LOC's. They asserted that IOC's also focus on aspects such as the grounds at the tank-farm, cleanliness considerations, and adequacy of lights. And that whilst this is good, but it comes at an additional cost, which in turn gives the local oil companies competitive edge over the IOC's. They believe that the head office could help if it relaxed some of its stringent requirements in this regard, since this is defeating to the subsidiary's self-sustainability.

The two figures below clearly depict the difference in terms of HSSE tolerance levels. Firstly, the IOC can hardly accept the rust (**Figure 5.6**) on its tank roof whereas the LOC can ignore it; secondly, whereas the LOC is not bothered by a grassy (**Figure 5.7**) roof tank which is the result of no regular cleaning.



**Figure 5.6**



**Figure 5.7**

In other instances, the guard rail on top of the tank was found to be lower than usual, and thus exposing the person doing the tank physical dipping; similarly, the hand rail along side the steps leading to the tank top were found to be low. IOC's dedicate capital expenditure resources whereas LOC's don't prioritise this area. However, such investment becomes too heavy on the subsidiary and would be better if it came as a 'windfall' from head office rather than out of the subsidiary's budget.

Directly related to the maintenance of higher-quality storage facilities the IOC's employ additional human resources at the tank-farm – yard staff - and this contributes to their comparatively larger proportion of remuneration base.

- **Population Density Profile:**

The majority of respondents (55%) cited misalignment between the government development goals and the population's life style trends. That is, the market is concentrated in the urban areas, whereas the government's strategy is to develop outlying areas. The intention of alleviating congestion and influx into these urban areas is defeated by the population's minimal response in this regard.



## Managing the subsidiary within rules of the head office - a case for the Oil Industry in the SADC Region

These respondents further asserted that from an infrastructural investment perspective, the governments are yet to match their intentions. As a result, the IOC's are reluctant to invest in storage facilities whereas the vehicle owners with higher fuel demand are in the urban areas. Similarly, to minimise bulk truck maintenance the oil companies focus on urban areas.

However, the minority pointed out that in Zambia it is the retail sector that is concentrated in the urban areas – they are the biggest consumers of petrol. And that since the commercial sector tends to be somewhat balanced - between urban and rural – the rationale for concentrating in urban areas is questionable. For instance, in the case of Zambia both the Copperbelt, which is out-lying, and Lusaka have a proportion of 34% each. Figure 5.8 illustrates.

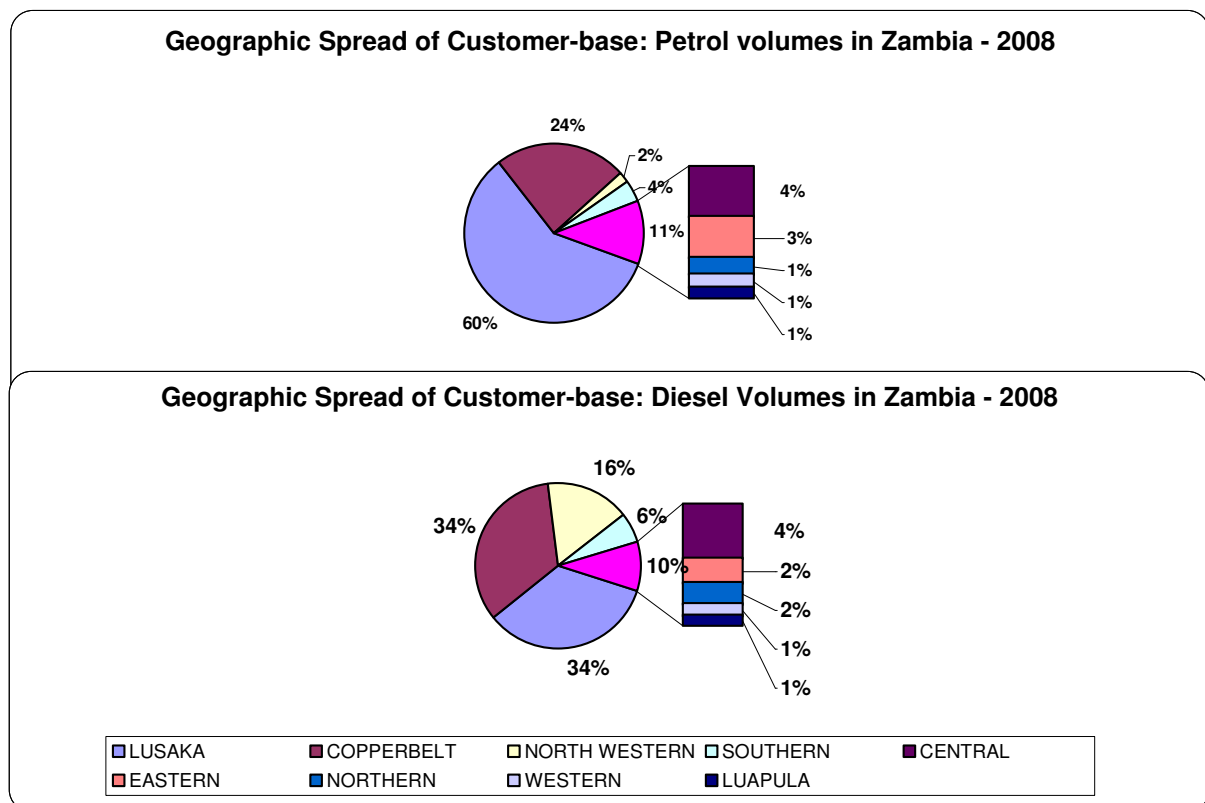


Figure 5.8

## **Managing the subsidiary within rules of the head office - a case for the Oil Industry in the SADC Region**

- **Retention of outlying customers:**

The majority (64%) of all respondents indicated that there are cases where the international oil companies have pulled out of the outlying areas for various reasons, including instruction by head office who believe that the location is no longer viable. Unfortunately, a local oil company would establish itself through winning a few key customers from the IOC. Alternative sources of supply together with transport mode form the LOC's competitive advantage in such situations, e.g. using a lake to bring product to its outlying destination.

- **Cash-cow:**

Most of the subsidiaries, according to 62% of respondents, believe that the head office tends to view the subsidiary as a cash-cow; hence their focus is on simply reaping returns on their investment – without further investment.

## **Reflection by the Researcher**

In so far as the business perspective of infrastructure is concerned clearly the misalignment is that head office believes that the subsidiary should be self-sustaining. That is, that the subsidiary should generate enough cash to invest in facilities such as storage and transport. On the other hand, the subsidiary views the head office as constraining its local business operations through upholding higher HSSE standards that bring cost inefficiencies which are also compounded by the often smaller size of the subsidiary's market demand.

In addition, the subsidiary believes that these expectations from the head office render the local business vulnerable to LOC's who are more entrepreneurial with higher risk appetite than the IOC's head office.

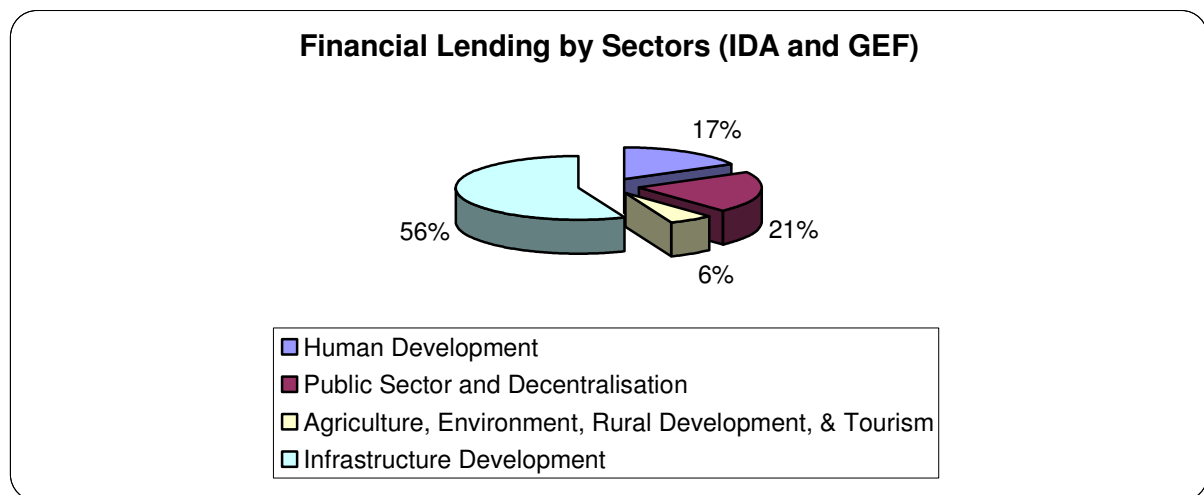
## **Country's Perspective**

All the respondents unanimously asserted that a country's infrastructure naturally plays a major role in building and growing the economy, not only within a country but regionally as well. And that its impact cuts across business sectors, including the oil industry.

Of the IOC respondents 84% believed that Africa's transport costs currently ranked as the highest in the world and that an improvement is long overdue, the minority did not raise this point. But they also concurred that the trend of poorly developed and inadequately maintained infrastructure should be reversed.

- **Diversion of donor funds:**

All IOC and 65% of LOC respondents asserted that most of the donor funds allocated to infrastructure – refer to Figure 5.9 - are hardly spent for its intended purpose. Unfortunately, such donors tend to be restricted from reviewing the actually spend, as this poses the risk of interference on a country's sovereignty.



**Source:** World Bank (as of December 2008)

**Figure 5.9**

That is, the will to invest in the road infrastructure is not strong enough. This was attributed to fear that a better road infrastructure would invite more private sector competition into the road transport industry. And this is something that could not only squeeze profit margins, but could lead to corruption therein being exposed, e.g. the conflict of interest.

There were, however, mixed views on how to address the challenges relating to infrastructure. The majority of IOC respondents believed that transport infrastructure was government's responsibility; thus the government inhibits prospects of operating a profitable local business. The minority of these IOC respondents, who were mainly head office based, believed that this requires public-private sector participation. They cited examples such as the N4 Toll road in South Africa's Mpumalanga province.

On the other hand, the majority of LOC's believed that government on its own would not accelerate this since it has other priorities as well country wide. They asserted that private-public partnership relationships are recommendable, and cited the container terminals in Tanzania's Dar es Salaam airport as an example.

#### **a) Ports**

The IOC respondents unanimously asserted that port facilities are not in full compliance with the International Ship and Port Facility Security (ISPS) code, which is a code they (IOC's) benchmark port facilities against. Their practical examples included aspects such as exposed electric wiring, fendering systems, as well as the mooring equipment. Further, 90% of these IOC respondents believed that manuals containing critical information such as water depth at the berths are often not kept up to date. And they believed that this plays a role in port authorities' lax attitude towards improving port facilities. The Figure 5.10 below illustrates some of these inadequacies.

**Managing the subsidiary within rules of the head office - a case for the Oil Industry in the SADC Region**



Non-intrinsically safe electrical equipment.



Cargo hose maintenance and insulation.



Inadequate fendering.



Damage to the quay and multiple trip hazards.



Temporary cargo transfer line without protection.



Damaged mooring bollards.



**Figure 5.10**

Another concern that was raised by all IOC respondents is that the mouth of some ports' facilities is small, which then makes it difficult to accommodate larger vessels, something that impacts on the economies of scale.

### **Managing the subsidiary within rules of the head office - a case for the Oil Industry in the SADC Region**

They cited a competitive disadvantage in the sense that the local oil companies are able to charter smaller vessels without the challenge of economies of scale constrained by these high standards. That in true entrepreneurial style, the LOC's would even hire a small vessel to receive product off-shore from a larger vessel so it can deliver at the smaller port. Given the IOC's higher benchmarking standards the head office would not allow the subsidiary to take this approach. In other words any vessel that IOC's use must meet certain internationally recognised specifications.

Fifty three percent of the IOC respondents believed that the LOC's would at times buy from pirate vessels, especially since they prefer spot purchases rather than contract terms as preferred by the IOC's.

#### **b) Rail**

The majority of respondents (91%) believed that there is inadequate investment in rail infrastructure. Such inadequacies include poor rail lines and malfunction in the rail tank-cars' brake system. And that some of these have led to derailment of (rail) coaches, as well as extended delays in expected delivery times, something that is directly linked to increased HSSE risk together with corporate reputational damage. Hence, international oil companies are especially reluctant to use it.

In addition, 76% of all the respondents highlighted this debilitated rail infrastructure as a constraint to realising economies of scale. In addition, the remaining 24% of the respondents cited the unexplained product losses that are inherent to this mode of transport as contributory too in making it unviable.

## **Reflection by the Researcher**

The head office believes that the subsidiary should play a more pro-active role by rallying the business community and forming public-private sector partnerships to build the country's infrastructure. This is also directly linked to the head office view that the subsidiary should be self-sustaining and must use its local networking to influence the local market stakeholders. On the other hand, the subsidiary feels constrained by budgetary limitations that arise from limited demand and minimal economies of scale. It can't be as entrepreneurial since there are inflexible international standards to abide by. These standards, according to the subsidiary, are not adequately responsive to the local market conditions, and thus impede the subsidiary's competitive edge in relation to the LOC's.

### **5.3.3.3 Business Practice Specificity**

#### **Question 10: How do aspects that are unique to the SADC oil industry impact the sustainability of your local business?**

To begin with, in posing this question the researcher's aim was to distil what is unique to the oil industry within the SADC region before zooming in on the varying perspectives of the head office and the subsidiary.

Both IOC and LOC respondents referred to the value chain and in particular the refinery and logistics. In this regard, all the IOC respondents identified both logistics and refinery as the most critical aspect, whereas the majority (88%) of LOC's highlighted logistics only.

## **Logistics**

All the participants cited the logistics function as significantly contributing towards the generation of revenues and improving profitability. They asserted that this is because logistics encompasses a wider spectrum, viz.

- Transportation of product from the refinery (or other source) into the depot storage tanks – i.e. inbound logistics - was highlighted by 73% of all the IOC respondents. It emerged that the IOC head office is often reluctant to trade around its assets, i.e. they have a strong preference for ownership of the logistics infrastructure such as trucks and storage facilities. The rationale being to minimise reputational risk, particularly given the HSSE intensity of the oil industry.

On the other hand, 65% of all these IOC respondents asserted that poor road conditions lead to astronomical maintenance costs; that outsourcing this function would minimise such costs and thus improve the subsidiary's profitability. However, head office is adamant that HSSE stakes don't warrant outsourcing.

- Long Distance deliveries when distributing product from the depot to the end customer was cited by 61% of all IOC respondents, who believed that the long distances - to some customers - defeat the concept of optimal routing. That is, a customer base that is located as far as 800 kilometres away would normally warrant an investment in storage facilities at the location.



However, the head office is reluctant to do so, on grounds that the sustainability of demand in those distant locations is not guaranteed. On the other hand, the subsidiary requires freedom to utilise other forms of transport such as the lake so that transport costs are minimised and critically so that on-time deliveries are maintained. But this is unfortunately a mode of transport that is not preferred by the head office.

- The depot facilities which are used for the storage and handling of product were highlighted by 84% of the all the IOC respondents. They specifically referred to inadequate investment in these aged facilities; that the head office believes the demand and volumes in the SADC markets does not warrant major investment in this regard. The LOC's believed that depot facilities do not warrant priority investment; that storage costs could be minimised via direct bridging (delivering directly at the customer premises).

On the other hand, 75% of the IOC respondents do realise that lack of capital investment contributes to the losses that are often incurred at these storage facilities. They also assert that limited storage facilities negatively impact the levels of safety stocks and thus threatening security of (product) supply; that low demand is compensated by the depot hosting of fellow industry players, especially the IOC counterparts. And they further assert that the very purpose of venturing into the SADC region is to exploit the anticipated market growth opportunities.

## **Refinery**

All the IOC respondents asserted that the refinery brings more stability in product supply to the country's needs. They believed that it plays a central role to the economy due to its impact on various sectors such as the motor industry, building, and tourism.

It emerged from 90% of them that because of the huge investment involved there has been reluctance towards further investment to improve current capacity levels. Similarly, 68% of all these IOC respondents believed that the main reason for the reluctance is that sustainable profitability is not guaranteed either.

The LOC's are involved mainly in selected aspects of logistics as well as in marketing the product, hence they did not cite the refinery. On the other hand, the IOC's derive most of their economies of scale from logistics as well as refinery (e.g. crude selection).

### **Reflection of the Researcher**

The head office is caught in a paradoxical situation, i.e. South Africa is neither a fully developed nor a third world market. So, whilst it does not fully apply the first world standards it however has limited insight into the realities of the third world countries. In addition, despite the leading role that the South African government plays on developmental issues across the African continent the oil industry captains based in South Africa are yet to fully embrace this agenda. And this is partly the reason for their reluctance to be as responsive to local market conditions.

#### **5.3.3.4 Cultural Distance**

**Question 11: In what ways does culture play a role in the way business is conducted in your local market?**

It emerged from both the LOC's and IOC's that cultural diversity challenges arise in three aspects, viz. the manner in which meetings are conducted, the sense of nationalism, as well as the skills transfer.

These were elaborated on as follows:

- **Sense of Nationalism:**

All the LOC and 61% of IOC highlighted the positive side of this sense of nationalism. That is, it emerged that the local oil companies have a stronger desire to succeed, viz. the “we can do it for ourselves” spirit. To do this they attract high calibre local candidates (or nationals) from the multinational enterprises, especially the oil industry since the required skill set is unique for some roles. In this regard the IOC subsidiary is constrained by maintaining a rigid remuneration package structure.

In other words that as a result of a group wide benchmark the international oil companies find themselves with skills drainage. In addition, these IOC respondents asserted that the human capital investment, which at times includes postings to South Africa, fails to yield the expected returns.

The remaining 39% of the IOC respondents highlighted a rather negative aspect, viz. that such spirited nationalism emanates from a mixture of resentment for foreign citizens as well as commitment prove that to do the expatriates have not much value to add in the country in terms of skills.

- **Punctuality at Meetings:**

All LOC and 92% of IOC respondents highlighted the fact that on occasion host government officials (e.g. Minister) would arrive very late for a meeting with an IOC senior leadership team. The South Africans would raise a concern based on factors such as their cost of travelling from South Africa for the meeting. But instead of receiving an apology, they have been strongly rebuked on grounds that “you can’t dictate to us” – meaning observe cultural norms. They would be informed that instead of bringing just the expatriate country manager with them they should have a local manager as well. This has often been a rude awakening for some.

Similarly, 87% of all the respondents asserted that it's quite common in meetings for locals to express themselves in, for instance, Portuguese (Mozambique) or Swahili (Tanzania). And this is not due to inadequate (English) language command but merely to sensitise the South African that they are now on foreign territory. As a result, some IOC's have embarked on a mission to either send expatriates who are conversant in the main local language or to encourage them to take lessons on that language.

- **Skills Transfer:**

All LOC and 74% of IOC respondents asserted there is a growing impatience on the part of some government officials who believe that the empowerment of host country nationals with the required knowledge is being progressed at a pedestrian pace. And that instead expatriates are deployed by head office to run the subsidiary.

This resentment becomes evident when some of the high ranking officials from the IOC's – especially those who are South African based - have underestimated the essence of bringing a local fellow employee to key meetings. In reaction, government officials would cancel the scheduled meetings at short notice - on arrival - citing the IOC's failure to respect cultural norms by undermining local talent. In other words, failure to involve local nationals in key meetings is regarded as undermining the skills transfer agenda, something that is a key requirement for getting a trading licence and granting a work permit to an expatriate.

These respondents further stated that such resentment is at times so deep that locals would reject not just the expatriate but resources offered by the IOC head office.

## **Reflections by the researcher**

Clearly the head office does sometimes become a liability to the subsidiary rather than be a value-adding support base. That is, these results indicate that head office is to an extent culturally illiterate in so far as the dynamics of the local market are concerned. Under these circumstances the subsidiary is caught up between observing the realities of the local environment on the one hand as well as obeying the practices of the head office as applied group-wide on the other hand.

### **5.3.4 Industrial Factors**

Table 5.5 provides an overview of the drivers of industrial factors, viz. competition in the domestic market, demand heterogeneity, and component localisation. For each of these drivers the views expressed by respondents have then been classified into sub-sections.

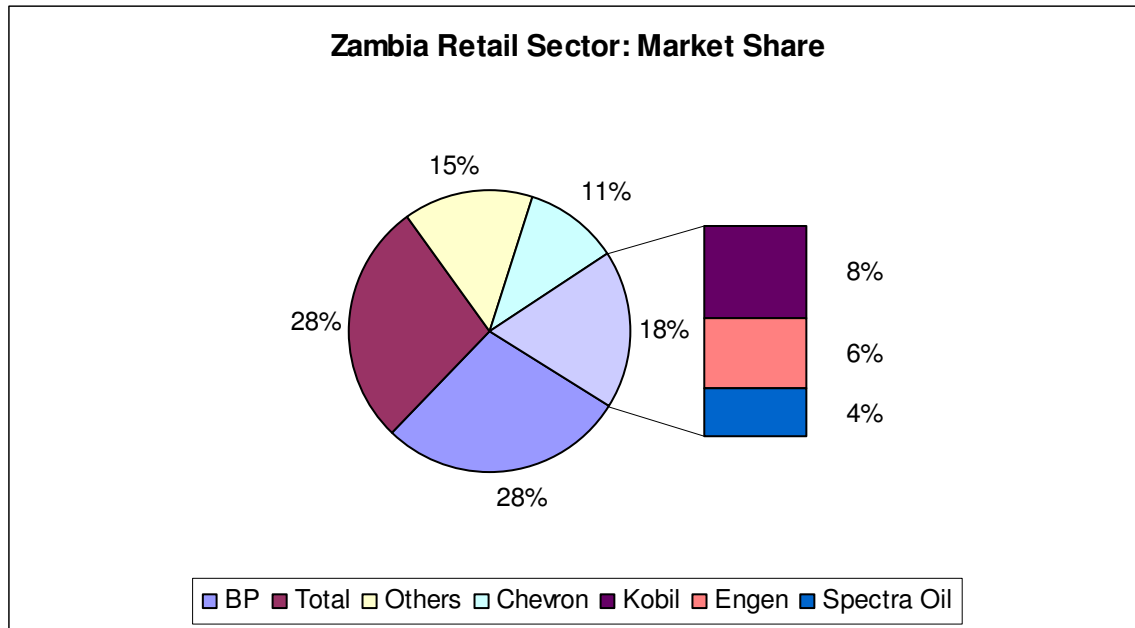
It's noteworthy that the unique colours that denote the various sub-sections serve purely to enhance clarity of the reader of this research report. For instance, competition in the domestic market is classified into 3 sub-sections, viz. sales volumes, market share, and cost efficiencies. And then where possible, further classification – e.g. commercial customers and retail customers – has been done. The rest of the Table 5.5 then follows in that same trend.

Table 5.5						
Factors that Justify Local Responsiveness vs. Business Areas Impacted						
Industrial Factors	Drivers					
	Competition Intensity	Market Share			Cost Efficiencies	
		Product specifications	Geographic location	Product dumping & smuggling	Product suppliers	Demand forecasting
		Historical ties	Capital investment	Contract management	Local blending	HSSE Standards
		Government interference	Storage facilities	Cost build-up	Product specifications	Rail costs
	Demand Heterogeneity	Commercial sector	Retail sector		Land ownership	Infrastructure ownership
	Component Localisation	Local suppliers	Start-up capital	Dealer profiling	Foreignness	Service station ownership

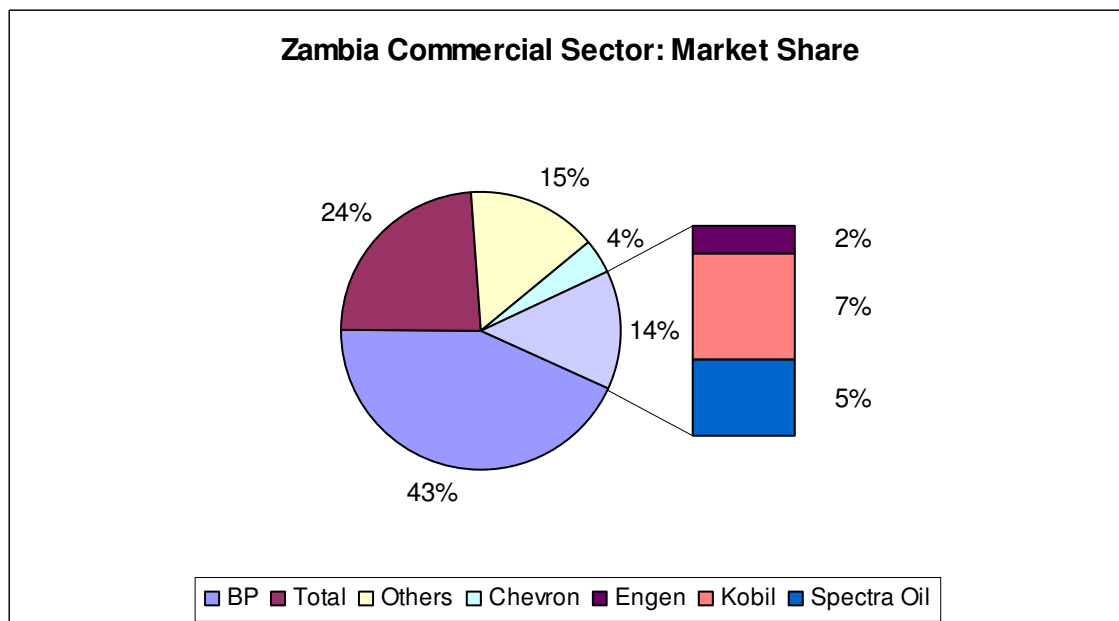
#### 5.3.4.1 Competition in the Domestic Industry

**Question 12: How do competitive factors impact your market share in the local SADC market's oil industry?**

The respondents were first requested to provide data regarding their market share in the respective markets, the idea being to corroborate the figures contained therein. And these figures were presented in graphical form by the researcher, as depicted below.

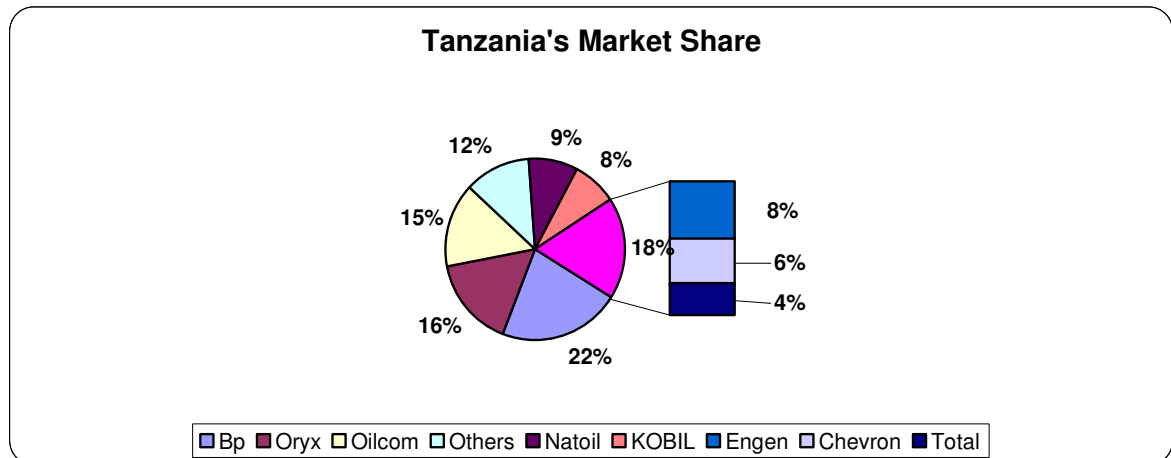


**Figure 5.11**

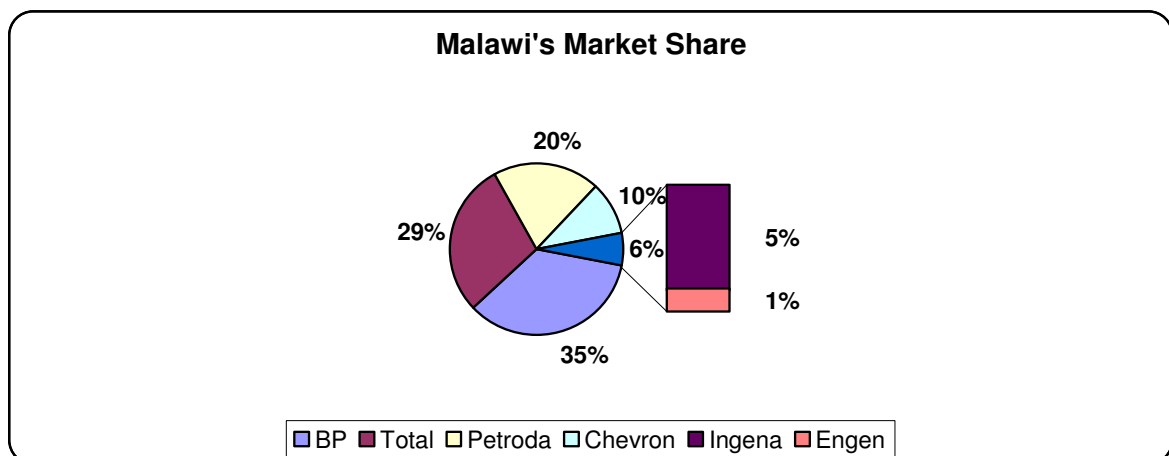


**Figure 5.12**

In Zambia there are essentially three main players who are multinationals, viz. BP, Chevron, and Total as shown in Figures 5.11 and 5.12.



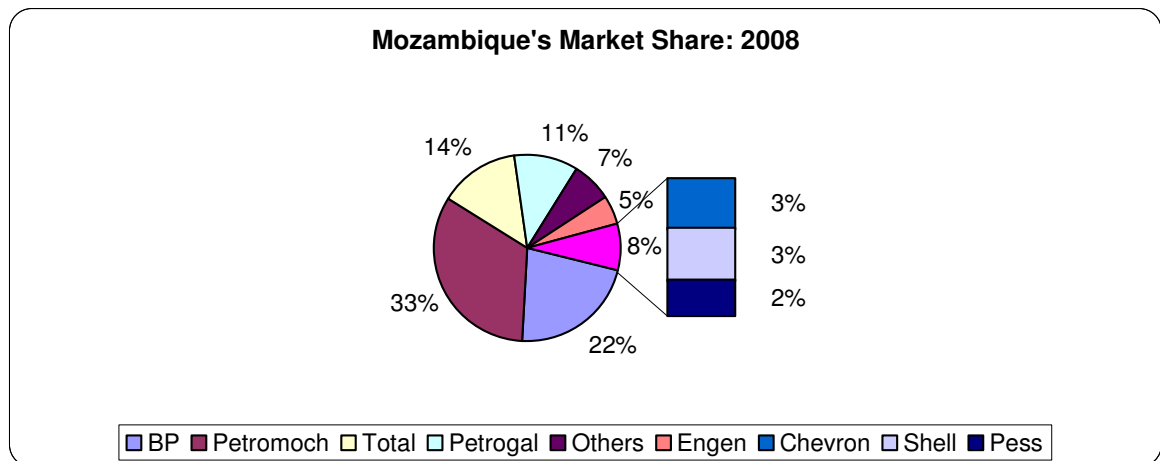
**Figure 5.13**



**Figure 5.14**

But in Malawi and Tanzania local oil companies have a stronger presence compared to the other sampled countries. In Tanzania it emerged that there is only one IOC amongst the top 5 petroleum organisations and that is Bp. Refer Figures 5.13 and 5.14, respectively.





**Figure 5.15**

In Mozambique the government owned Petromoch has historically been and still is presently a market leader – as per Figure 5.15. The reasons are partly historically based, viz. since Mozambique used to be a communist state all state organisations would thus be served by an indigenous oil company.

These respondents identified six factors that influence the market share of their organisations in the local market. These were product differentiation, geographic location, product dumping and smuggling, historical ties within the local market, capital investment, and contract management. A brief discussion of each follows hereunder:

#### **A. Product Specifications**

- This was cited by all the LOC and 62% of IOC respondents as a competitive factor in their pursuit of increased market share. This is because when a customer requires certain product specifications, on some grades of lubricants and greases, it implies that such specifications constitute quality from the customer's perspective.

These IOC respondents further asserted that the IOC head office tends to be reluctant to adapt their products on grounds that economies of scale would be compromised. This would leave the subsidiary in a difficult position, facing fiercely competitive LOC's who are more willing to supply just what the customer requires.

- According to 59% of the IOC respondents product differentiation as applied in the lubes and greases has a positive spin-off on market share of fuels (i.e. petrol and diesel). This is because customers would rather stick with the same brand than use one for greases and lubes whilst preferring a different brand for fuels.

**B. Geographic Location**

- This was cited by 75% of IOC respondents, and all of the LOC's. They asserted that commercial customers (e.g. mines and farmers) who are significant in terms of sales volumes are located in outlying areas. The dilemma then is that servicing these customers from the hub entails more frequent deliveries to these outlying locations, something that escalates truck maintenance costs. This approach would negatively impact the sustainability of the subsidiary.
- Seventy percent of the IOC's asserted that in order to boost market share these distant customers should be served from their outlying areas, which are thus their base. However, this requires investing more on infrastructure such as storage facilities, in those outlying areas. The IOC head office tends to be reluctant, citing the potential costs of future de-branding of the sites and extracting the tanks from the ground at the end of the contract.

On the other hand, IOC respondents asserted, the subsidiary is willing to take the risk and operate without a contract so as to be competitive against the LOC's.

**C. Product Dumping and Smuggling**

- This was cited by 92% of all respondents, who asserted that product dumping, in collusion with border-post officials, continues unabated. And they attributed this to the relatively high product cost in terms of duties and taxes. For instance, product that is intended to be exported to, say, the DRC finds itself remaining in the country (Tanzania) and sold at a higher margin.

This also contributes to other companies being able to cut their prices so low that some IOC's become uncompetitive - and lose market share.

- According to 78% of the respondents, efforts such as spot audits by regulatory bodies to eliminate this bad habit have not been adequately effective. That is, such efforts would entail unexpected visits to premises and requesting the oil company to produce evidence of its product purchases and issues, and compare to current stock holding. Any discrepancies noted in this reconciliation often lead to heavy taxes levied on those companies and/or even stripping them of their trading licence.
- Similarly, 63% of IOC respondents cited smuggling of product into the country as a challenge to their market share; that some LOC's use it as a tactic for maintaining or expanding their market share. They further asserted that LOC's tend to be regarded as smaller players who, as a result, tend to fall below the radar screen. These corrupt measures are sometimes facilitated by collusion with state officials.

Compounding this problem is the challenge of product security as well as that of cashflow. The IOC's believe that flexibility in terms of sourcing product from the cheapest suppliers would assist in improving their profitability, something that would make their prices to be more competitive. And that way, the negative impact on subsidiary (or IOC's) market share would be minimised. In other words, they can better tackle the competitive cost advantage of the LOC's.

**D. Historical Ties within the Local Market**

- Sixty nine percent of all the respondents cited historical ties within the local market as a contributory factor to market share. They cited the case of Mozambique where most state enterprises such as railways and buses still prefer Petromoch for their fuel supplies; that these ties stem from the years of communism.
- According to 60% of all LOC respondents, an added factor is that when an IOC pulls out of outlying geographic areas of the country the LOC would take advantage of this, and expand its market share accordingly.

**E. Capital Investment**

This was cited by 68% of IOC respondents who asserted that servicing commercial customers entails lower capital investment requirements. And that their (IOC) reluctance to invest in storage facilities and other assets on-site was due the comparatively higher risk of losing that customer to a competitor. Compounding this challenge, they believed, is the fact that commercial customers tend to reluctant to enter into long term contract with oil companies (or suppliers).

**F. Contract Management**

- All IOC and 68% of LOC respondents pointed out that commercial customers (including mines and farmers) are often reluctant to enter into long-term contracts with the oil industry. And that when they do so, these customers would rather split their volume requirements, viz. purchase from more than one oil company. These respondents further asserted that this makes market share figures volatile.
- According to 70% of IOC and 60% of LOC respondents commercial customers prefer to draft contracts themselves. This would compromise the supplying oil company's margins and profitability, with reduced volumes being supplied to those customers. And necessarily, the market share is negatively impacted, particularly for those oil companies that are not serving global accounts.

It also emerged from the majority of IOC respondents that the head office tends to apply the group credit policy stringently when it comes to discount matters. And that the LOC counterparts are guided by the business case. As a result they increase volumes that way, at the expense of IOC's.

**Reflection by the Researcher**

It is very clear that market share is essential from the perspectives such as economies of scale and customer retention. In order for the subsidiary to operate competitively in the local market the head office needs to be flexible with some of its policies and rules including those around group credit policy and sources of product supply. In addition, the will to service customers in outlying areas, despite the risk of losing them is required. This would, in anyway, talk to how innovative the IOC (subsidiary) is in servicing those customers.

## **Cost Efficiencies**

### **Question 13: How can cost efficiencies be improved in your organisation?**

All IOC respondents were unanimous in asserting that there are unique challenges in SADC and that these have a significant impact on cost efficiencies; that some of these challenges are “foreign” to head office. They claim that head office is sometimes not adequately flexible and receptive to proposals made by the subsidiary; that despite all these challenges the subsidiary is expected by head office to be self-sustaining and profitable. Such challenges, which often lead to superfluous costs, include:

#### **A. Product suppliers**

These were cited by 81% of IOC respondents, viz. that the subsidiary does not have the flexibility to source product from the most cost-effective suppliers. Instead, the head office has its preferred suppliers that the subsidiary is required to buy from regardless of cost efficiencies. And this sometimes leads to a higher cost of such product being incurred compared to what the case would be if the subsidiary were to source it from alternative sources.

These respondents asserted that head office cites the risk of product quality including adulteration as reasons for its reluctance. They claim that the credibility of such product suppliers is suspect and accordingly poses a risk exposure in the form of the IOC’s reputational damage if not well managed. They claimed that the negative impact on a local brand (i.e. LOC’s) is far less than that on a global brand (IOC’s); that a mishap in one country reverberates through other parts of the world.

All the LOC respondents corroborated this view in so far as cost is concerned, viz. that flexibility regarding sources of product supply improved their cost efficiencies. They cited optimisation of product sourcing as a competitive factor; that this is enhanced by entering into spot contracts rather than terms contracts. They also scout for excess product at the port as a cost saving tool.

**B. Demand forecasting**

This was cited by 85% of IOC respondents who asserted that demand forecasting is driven from the head office (i.e. South Africa), and it factors the demand of the SADC subsidiaries as well. Subsidiaries are forced to import product from RSA despite the premium/cost that makes the IOC's less competitive compared to their local counterparts. That is, this approach squeezes their profitability.

Compounding their cost inefficiencies is the paradox relating to this matter; that in the event that supply within RSA falls short the subsidiary's product requirements are not prioritised. It is only then that the subsidiary is allowed to source product from alternative sources, including their local counterparts. These respondents also posed a question: if local oil companies are often accused of lowered standards how come they supply the IOC's in time of crisis?

**C. Local blending**

The blending of lubricants and greases was cited by 80% of IOC and 63% of LOC's as an indicator that the IOC's do not optimise their product sourcing function. They asserted that importing these products from South Africa is more costly than sourcing them from local blenders.

These respondents further pointed other aspects of related costs, viz. the turnaround for delivery of product is too long to a point of threatening customer retention; that the safety stock principle may not be observed; and that obsolete stock which may result in product being sold at significantly discounted prices is also a possibility.

**D. HSSE Standards**

These were cited by all the IOC respondents, who alluded to their HSSE standards being ahead of times in relation to the SADC economies; that whilst these have good intent but the cost thereof exceeds the benefit. An example cited was that of trucks that should not be on the road beyond 18H00; that this impedes competitiveness of the IOC's in that they cannot get product to the customer as quickly as their local counterparts (LOC's). Unfortunately, this practice emanates from their global, developed countries, whose markets are vastly different from local ones.

This view was corroborated by 72% of LOC respondents who took a different perspective, asserting that the poor condition of the roads actually requires that trucks be on the road for longer so as to make as many deliveries as possible.

**E. Government interference**

Interference with margins was highlighted by 52% of LOC and 74% of IOC respondents. They claimed that the government would commonly keep oil industry wholesale margins fixed for an extended period of time. That is, the government would issue a decree that effectively eradicates margins, particularly in the run up to elections. And this would lead to some oil companies operating at negative margins.



This is compounded by the fact that although importing of product is allowed but the government fixed price implies possibility of selling at a loss.

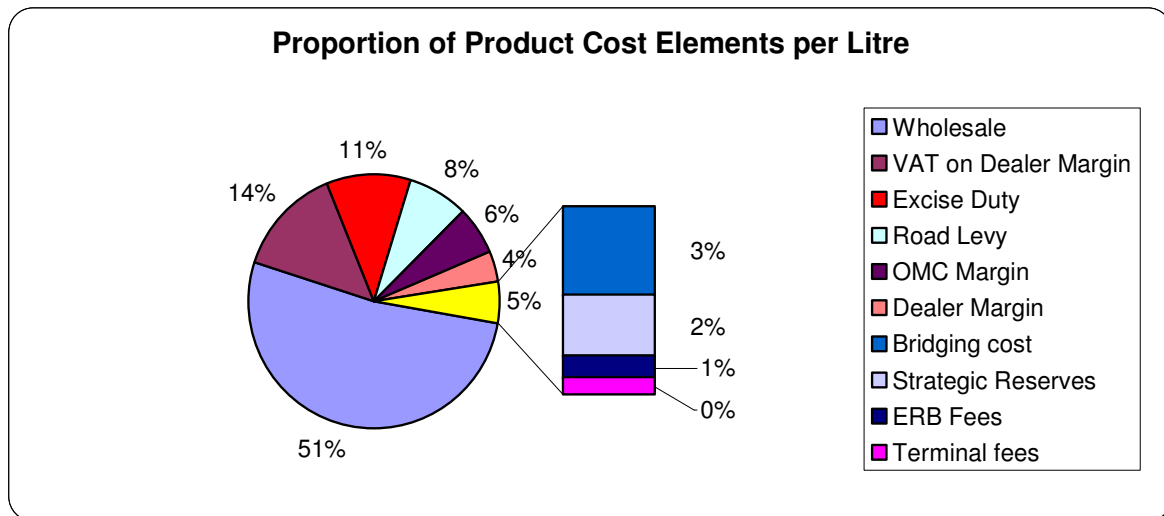
**F. Storage facilities**

Storage facilities as a capital investment requirement were cited by 69% of IOC respondents who asserted that, though a good idea, but it inhibits the subsidiary's competitiveness in relation to its LOC counterparts. This is due to the fact that their LOC counterparts tend not to have depot facilities; they tend to deliver product directly to the customer, and thus save on storage costs. This is the case particularly in Zimbabwe, where product is picked up from Beira and delivered straight to the customer.

On the other hand the IOC views this as risky from the perspective of product supply security; that the safety stock principle would be compromised.

**G. Cost build-up**

The cost build-up of the product was cited by all respondents, who asserted that it is composed of mostly elements that are outside the oil company's control - typical to that per Figure 5.16. That is, as depicted almost 90% of the cost goes to government coffers and this is the average trend across the five countries that were sampled. In essence they claimed that a reprieve against the inter-company charges would be beneficial to the profitability of their local business. This would include key cost elements such as IT global fees, and business travel costs.



**Figure 5.16**

#### **H. Product specifications**

These were cited by 83% of IOC respondents who claimed that Africa's sub-Saharan region has different fuel specifications (e.g. octane levels) for each country. And that this is compounded by the lack of modern refinery technology which thus impedes standardisation in terms of product specifications. For the land-locked countries the cost of cleaner fuels becomes even more.

In addition, 75% the of IOC's and all LOC's asserted that the IOC's are operating ahead of the times, viz. by introducing cleaner fuels at this early stage when, there is as yet, no legislation in place; that this then becomes a superfluous cost. And they claimed that this makes it difficult for the IOC to reap economies of scale.

#### **I. Rail costs**

These were raised by all respondents, asserting that in SADC the rail rate tends to be pegged to the road rate; that a rail company would say “I will give you 2% less than the road rate”. And since rail transport is mainly government controlled the inherent inefficiencies compound the cost challenges.

Further, 71% of all the respondents highlighted conflict of interest on the part of government officials. That is, that those who have business interests in the road transport industry would naturally be reluctant to encourage effective spend of the budget allocated to rail infrastructure.

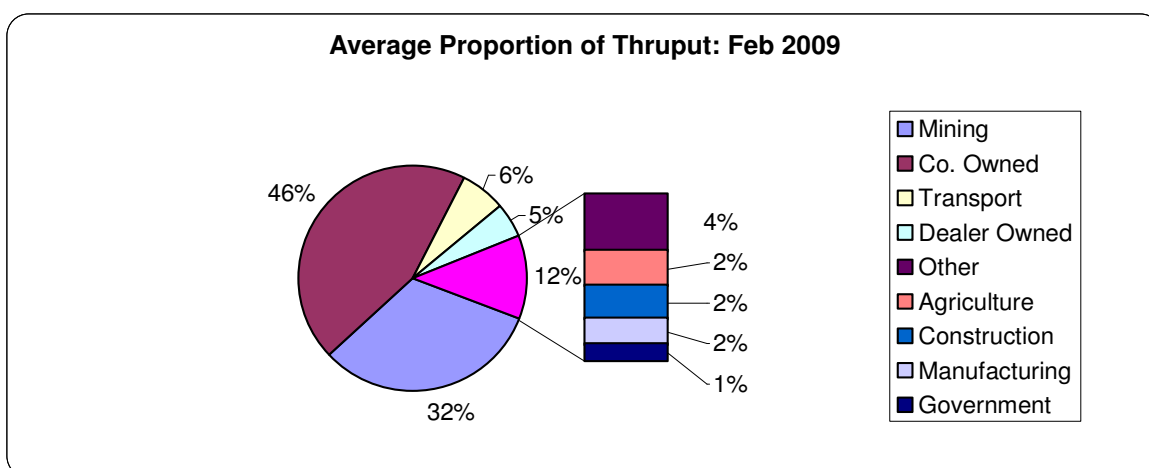
**J. Infrastructure ownership**

This was cited by all respondents who asserted that the government controlled infrastructure such as pipeline as well as refinery attracts fees (or cost) regardless of whether the oil companies are using it or not. That is, that in other instances, this comes in the form of a percentage loss that is incurred for storage facilities. For instance, a government bulk storage facility that is used by all oil companies would have a stipulation that says 0.5% of product volume stored would be a deemed loss. It would therefore be charged to the oil company when it is being billed at the end of the month.

### 5.3.4.2 Demand Heterogeneity

**Question 14: In what ways is demand along respective key customer segments affected in your local market?**

Customer segments were found to be predominantly the same across the sampled five countries. Broadly, they were classified into two. Firstly, the commercial sector which, in turn is sub-divided as per Figure 5.17 below. It also reflects the consolidated average sales volume proportions across the sampled countries.



**Figure 5.17**

In terms of B2B, the mines are the biggest customers, perhaps this is due to the fact that mostly they are headquartered in South Africa as well. So, business contracts that are struck in RSA have a positive spin-off in other parts of the Continent – SADC included.

Secondly, there was the retail sector whose volumes are driven through the company-owned service stations, and they are predominantly the face of an oil company.

## **Commercial Sector**

Eighty percent of all respondents asserted that the battle-ground in terms of sales volumes to the mining sector is on price discounts, which are a key bargaining tool. The local oil company's edge is the fact that they do not bother much about binding the mining companies into a buyer-seller contract. So, from this perspective, they are sometimes preferred since the buyer has the freedom to always look out for the most competitive price.

These respondents further asserted that in order to counter the challenge from LOC's the subsidiary cited the need for the head office to relax its credit policy, particularly for global customers and/or those that are deeply entrenched in South Africa. The point being that head office (in South Africa) also served most of these customers – although they run a separate account from that of the subsidiary.

## **Retail Sector**

Most volumes are pumped through the (IOC) company-owned sites rather than dealer owned ones, as depicted in Figure 5.15 above. This was attributed to various factors, which include the following:

**A. Start-up Capital:** Seventy six percent of all respondents believed that due to the economic conditions relatively fewer entrepreneurs are able to raise capital that is required in order to run a retail service station; the steep cost of about \$1.5m indeed talks to the barriers to entry as well; and high lending rates applied by financing institutions hamper access to capital. They further asserted that to be locally responsive the head office could lower the threshold for capital investment contribution from prospective dealers.

In addition, 68% of the IOC and 82% of LOC respondents asserted that SADC regional economies' context should be factored in performing credit vetting and dealer profile requirements for a prospective dealer. Such context would entail that, given the lack of credit bureaus and thus quality information, subsidiary staff who are local nationals could be empowered to base their recommendations on "intelligence information" that is gathered from their social networks.

Further, that in order to further strengthen this locally adapted tool an incentive structure could be introduced, viz. there would be a small commission for bringing on a dealer, the balance of which could be staggered over a period of 3-5 years. The respondents believed that the period would be based on the fact that after 5 years even a comprehensively vetted dealer by modern methods could still go under. [**NB:** This could also serve as part of the talent retention strategy, as staff would find the additional income to be adequately enticing].

**B. Dealer Profiling:** The fierce competition, which is compounded by the squeezed dealer margins, has led to some dealers opting out of their businesses. It is in this context that 64% of all respondents cited the inadequacy of skills as a critical challenge. These include financial management, the unique petroleum industry knowledge, and lack of strategic vision on how one could sustain the business through a fast paced environment. As a result, it is difficult for the retail service stations to operate at optimal levels and yield the minimum required returns.

These respondents further cited the need to complement the mandatory standardised dealer training that is conducted in South Africa with a customised one. That is, one that would be run locally for an individual or smaller number of dealers based on their personal skills gaps. The respondents believe that the subsidiary would attract more dealers who would exploit this opportunity since it saves on additional costs of travelling to South Africa.

- C. Land Ownership:** All IOC respondents asserted that if the IOC's were to exploit the alternative option of building a service station on a plot/site that belongs to someone else it would come with its own challenges. That is, in the event of disputes arising, the cost of de-branding the site is significant; this is also complicated by the regulatory environment which would imply a dragging legal process.
- D. Foreignness:** All IOC and 63% of LOC respondents cited the view that MNE's remain 'foreign' in these host markets; that despite the long period spent operating there, the perception is not about to go away. Hence the IOC's would rather own the retail service stations.
- E. Service Station Ownership:** As, once more, depicted in Figure 5.18 the retail sector is dominated by company owned service stations. In addition, Figure 5.16 below depicts that the local oil company leads in both the agricultural as well as "Other" sectors, respectively, whilst doing fairly well in transport.

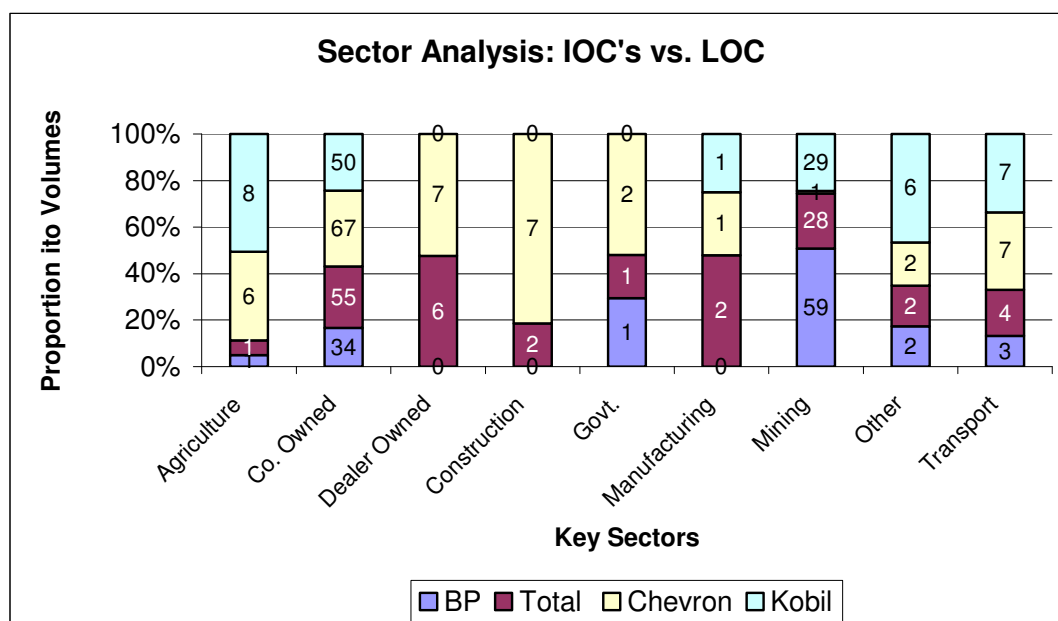


Figure 5.18

It is also clear that on the retail side both the three IOC's (Bp, Total, and Chevron) and the LOC's (Kobil) prefer to run their own sites rather than relying much on the national entrepreneurs.

### **5.3.4.3 Component Localisation**

#### **Question 15: Does the government impose any regulations on component localisation?**

Both the IOC and LOC respondents asserted that the respective governments' stance is clearly in favour of boosting the local suppliers, but that they accommodated the importing especially forecourt equipment such as canopies, storage facilities, dispensers, and engineering services. The respective respondents cited some of the reasons for the host government to be accommodative, viz.:

- All IOC and 60% of LOC respondents cited the requirement to maintain global corporate image and standards. For instance, even if local suppliers had the capacity to make such products possible economies of scale would be a challenge.
- All IOC and 76% of LOC respondents cited specificity of some micro aspects relating to such equipment as something that IOC would be weary not to divulge to a third party. That is, that they would rather stick with a dedicated and limited number of suppliers to manufacture some of these equipment.



- However, 77% of IOC and all LOC respondents alluded to the fact that IOC's exaggerate this requirement, e.g. that when it comes to the staff uniforms local suppliers could do better. These tend not to be suited to the local weather conditions. They further cited that against this background duties levied on imported goods disproportionately impact profitability of the subsidiary.

### **Reflection by the Researcher**

In so far as demand heterogeneity is concerned the subsidiary clearly has only a minimal margin earned towards its profitability. The subsidiary believes that local responsiveness on the part of head office would entail reducing the intercompany charges that arise from the services rendered by head office. For instance:

- Minimising aspects such as business trips to the subsidiary and rather opt for teleconferencing;
- Restricting imports to the bare essentials of business operations;
- Limiting global IT charges by customising the packages to only the required system features; and being
- Flexible on which suppliers to source product from. The subsidiary's competitiveness against LOC's, whose advantage stems from a lower capital outlay or structure, would be enhanced.

And through such an approach, head office would be adopting a win-win approach. That is, being flexible on cost-cutting opportunities as highlighted by the subsidiary whilst at the same time remaining rigid on aspects that safeguard the IOC's brand and reputation at a global level.

## 5.3.5 Control Factors

### 5.3.5.1 Control Flexibility

#### Question 16: How does your organisational structure impact your business in relation to headquarters?

All the IOC respondents expressed concern about the extent of control exercised by the head office on various aspects of the subsidiary's operations. They assert that this has a negative impact on their ability to run the local business operation in a competitive manner. Their concerns revolve mainly around skills recruitment and retention as well as delegations of authority. None of the LOC's were concerned about this.

#### Skills Recruitment & Retention

- HR Policy: Of the IOC respondents 71% cited the centralisation of the human resources policy as an impediment to the effective benchmarking of remuneration packages. They believe that this is the reason that leads to IOC's falling behind their local counterparts with regards to both basic salary as well as additional benefits such as company cars, i.e. total cost to company.
- Empowerment: A concern raised by 69% of IOC and 60% of LOC respondents relates to empowerment, viz. subsidiary disempowerment. That is, that there are key local positions that have been stripped of some responsibilities. For instance, finance manager positions used to be staffed with expatriates, but have since been reduced to accountant positions since being taken over by the local citizens.

And that an additional layer has been created by introducing the regional controller positions which then assume these responsibilities. These new positions are also staffed by expatriates who do regular travelling to the subsidiary and thus burden its intercompany charges or management fees and thus threatening its sustainability. Similarly, business development is closely guided by a manager who is based at head office.

All LOC respondents asserted that their competitive edge on this issue lies in the size of their business; that because there are no headquarters lying remotely then supervision and decision making is taken 'across the table' with manageable risk. They believe that the disempowering approach undermined their intelligence. This creates conflict/tension in that head office views them as minor players. This is despite the fact that some of the IOC's talent joins these local oil companies. On the other hand, the majority of IOC respondents conceded that LOC's are driven by their national pride, which is difficult to challenge.

- **Expatriates:** The proportion of expatriate staff versus local talent was raised by 85% of IOC respondents. They asserted that some local dynamics dictate that an expatriate be brought in, e.g. locals tend to identify with say regulatory officials so much that their objectivity is compromised, or they lack the will to stand their ground. Complicating this concern is the common risk of government officials who make certain demands such as the awarding of tenders. The probability of this risk is higher when a local heads up the business – the IOC's assert.
- **Succession Planning:** In addition, 60% of all these IOC respondents believed that walking away from the expatriate programme is not possible. They assert that in a global context it is like transferring an employee from one city to another, e.g. Durban to Johannesburg. And that its benefits are indisputable, viz. to facilitate skills transfer, build capacity and install a mentoring programme.

They warned though that to be a sustainable intervention, an expatriate programme must be backed by a robust succession planning. The cost/benefit analysis is, of course, ultimately what determines the need.

- All LOC's believed that, whilst this is a critical issue in their organisations, but it is hardly an issue. They are able to attract the skills from the IOC's and actually that they use the IOC's as a training ground for the LOC's; that the fact that there is no legislation that calls for a "cool-off" period before one can join a competitor is an advantage to them.

### **Delegations of Authority**

All respondents alluded to the fact that in order to be competitive in a volatile market, especially a deregulated one, the authority granted to the subsidiary is critical. And that this becomes particularly crucial in a market with a very strong presence of local oil companies. For instance, it emerged that:

- Capital Expenditure: Decisions relating to capital expenditure are often not localised, and this is concern raised by 95% of all IOC respondents. Two related examples cited were, first that a piece of land that may have been identified is often lost to the local oil company whilst the IOC's managing director is still awaiting approvals from head office. Secondly, even where a capital project has been budgeted for and approved, when actual spending is to take place approval has to go through the long chain of command to the head office.

- **Business Plans:** All the IOC and 69% of LOC respondents cited business plans, including target volumes and target discounts are driven from and dictated by the head office. Local oil companies have the latitude to grant higher rebates/discounts; due to their low capital structure they can still earn a comparatively higher return on investment.
- **Board Membership:** Eighty one percent of IOC and 62% of LOC respondents raised a concern about the composition of the board of directors. They claim that it has very few external directors, and this distorts the perspective about realities of the local market, thus stifling the decisiveness.

**Question 17: In what ways does your Board of Directors impact the interaction between head office and your local business (or subsidiary)?**

In addressing this question the respondents highlighted the current problems within their subsidiary whilst citing the proposed solutions thereto.

- It emerged from 79% of the IOC's that the subsidiary's Board of Directors tends to be dominated by internal directors, including those who are country managers in sister subsidiaries. And this impacts negatively on the Board's mandate to provide strategic direction to the subsidiary's business.
- Both the IOC (85%) and all LOC respondents alluded to the fact that their internally dominated Boards lacked vibrancy of debate partly due to the fact that the Board chairman was the direct line manager of the country manager. As a result, the Board's will to hold the subsidiary's management accountable was limited. They believed that the performance contracts were either not robust enough or performance against it was not measured properly.

- Sixty two percent of all respondents asserted that the concept of external directors is at infancy stage in SADC and that it is not a corporate governance requirement nor is it a prerequisite for obtaining a trading licence. As a result IOC's tend to ignore it and rather stick with majority being internal directors. They claim that it is a more effective way of safeguarding their investment in the subsidiary. However, they believed still that it is advisable for the subsidiary to persuade the head office in this regard.
- All IOC respondents asserted that the subsidiary Boards were not diverse enough in terms of both business experience, and that this leads to lack of vision, hampers quality decision making, and at times renders strategies.

### **Reflection by the Researcher**

The issues raised regarding control flexibility are all intertwined, viz. skills recruitment and retention is central to how the head office sees its role in relation to its subsidiary. For instance does it:

- Set guidelines or rather it should set rules when it comes to staff remuneration;
- Bring more expatriates and risk escalated costs that compromise the subsidiary's sustainability or rather it should empower local citizen and risk loss of independence.

It is also clear that the dominance of the Board by internal directors does not enhance the subsidiary's competitiveness in the local market. Instead the status quo strengthens the head office's disproportionate hold over the subsidiary.

It is also noteworthy that whilst the LOC's are largely not affected by the head office and subsidiary interaction but they have a good grip of the dynamics and challenges. Now, if competitors can see the challenges of an IOC then why does the IOC head office not anticipate them and act accordingly so as to sustain competitive edge?

## **5.4 Conclusion**

Local responsiveness in the context of this research project is about how the IOC, through the subsidiary, improves its competitiveness in relation to the LOC's. Implicitly, it is about the constraints as well as extent of flexibility that the subsidiary enjoys within the rules set by head office. This conclusion has been categorised into the four factors that determine local responsiveness.

- **Organisational Factors**

The IOC's regard the impact of both host government as well as business networks as comparatively more significant than do the LOC's. This is because whilst IOC's are used to operating in a rapidly changing business environment in developed economies, there is an additional dimension in an emerging market such as SADC.

That is, regulatory rules are applied inconsistently, compliance monitoring relatively weak, and punitive measures applied selectively. This necessarily escalates the significance of business networks which are regarded as some forms of alliances in this turbulent environment, in which the IOC's find themselves even more vulnerable than LOC's do.

- **Environmental Factors**

Infrastructure is the most critical element in this regard for it provides a platform on which business is conducted, and it is also an essential aspect of risk profiling the viability of running a business in a market. The perspectives of the IOC's versus the LOC's are vastly contrasting. This may be due to the variance in terms of standards that are maintained by IOC's compared to LOC's. Hence, the IOC's view this aspect as having higher impact.

And it is from this perspective that the head office could be more responsive locally by compromising on some of its requirements from the subsidiary – preserving its corporate reputation (e.g. HSSE) whilst also being sensitive to market realities. The LOC's contrary perspective is also based on the fact that they are used to these conditions and have no external – developed world or market – standards to compare the local conditions against.

The similar rating of cultural distance's impact by both IOC's and LOC's stems from the fact that LOC's are certain that this is one of their competitive advantages. That is, the LOC's entrepreneurial spirit towards the exploitation of business opportunities is further strengthened by their deep insight into the local environment as well as knowledge of the culture and the business environment.

On the other hand, the IOC subsidiary is weary of its vulnerability in this regard and hence the need to be given more latitude in making local decisions. Hence their manageability is also lower than that of the LOC's. So, the impact is significantly high from that perspective.



▪ **Industrial Factors**

Both the IOC's and LOC's realise that competitive edge has a significant impact on their business operations and sustainability. Cost efficiencies are pursued using different strategies, viz. IOC's leverage by coordinating their activities throughout the value chain, whereas the LOC's have a lower capital outlay and would select only those activities that are essential to profitability.

The subsidiary is however, constrained by group policies (e.g. credit policy) when it comes to granting of credit and negotiating discounts. For this reason, the subsidiary's manageability of competition is medium. On the other hand, the LOC based their pricing decisions on a case-by-case basis. And this not only attracts key customers, but improves the LOC's competitive edge including market share.

▪ **Control Factors**

The flat organisational structure leads to quick turnaround time for decision taking because consultations occur more frequently and around the table. For this reason the LOC's believe they are in charge of the control flexibility.

On the other hand the IOC's have to liaise with head office before making key decisions; this is required by head office to a point of micro-managing the subsidiary. And this is compounded by the physical distance between the two. The challenge of running the business in this way has some challenges, viz. being distant from regulatory bodies, limited understanding of the social dynamics, misaligned corporate social investment initiatives.

The overall picture of these research results therefore proves that indeed there is a need for reconfiguring the relationship between the head office and the local business unit. The original trend of filling the country manager as well as financial manager positions with expatriates is gradually changing. So, unless the reconfiguration occurs during this “transition” period, it will be difficult to implement when the local business units are headed by local citizens across the respective countries. And at that point, the IOC’s may have lost so much to the local oil companies that it would be difficult to regain competitiveness in the local market.