Economic Transformation of the Petroleum Retail Industry in South Africa

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DECLARATION

I, Boitumelo Sekete, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Boitumelo Sekete

Signed at .................................................................

On the ........................................... day of ......................... 20.....
ACKNOWLEDGEMENTS

I am nothing without God! I can do all things through Christ who strengthens me. Philippians 4:13. This has been one of the most fulfilling and rewarding journey I have ever embarked on and the Almighty made it possible. I am humbled by his consistent and never-failing love, guidance and favour upon my life. Pillar of my strength, my mother, Ntombizamamphembe Dladla. Words cannot describe my gratitude for you. Thank you for your love, support, sharing your wisdom and being my sounding board. I appreciate your honesty and discipline, despite being your daughter, you’ve always been firm in teaching me what's right instead of what sounds right to me and through your teachings, I've learnt to look at the world with fairness and just.

Thank you to my brothers and extended family for the love, support, laughter and understanding that I couldn’t attend much family events during my studies.

Sis Li, thank you for always making yourself available to me, you have played a significant role in my life. The support and understanding I received from you during this journey enabled me to reach this final stage, Thank you.

I walk away rich with blessings and the past two years have been challenging and amazing because of friends who became sisters. Lee-Ann Munetsi, shamwari yangu yepamwoyo. Thank you for your love and support and guidance where I needed you most. Nono, Thando and Kgothatso, in you I have gained eternal sisters. We’ve walked this road together and carried each other through it, I am a better version of me because of your love, support and honesty.

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ABSTRACT

Background: The pre-democratic government’s apartheid policies premised on social exclusion and economic marginalization of specific races, resulted in economic sanctions being imposed by South Africa’s trade partners, leading to a severely weakened economy. Following the demise of apartheid in 1994, economic transformation policies were implemented to address inequalities through wealth redistribution and economic participation of the previously marginalized Black South Africans.

The energy, mining and finance sectors were identified as areas that could make the biggest contribution towards this transformation agenda and drive economic growth. Within Petroleum industry, part of the Energy Sector, the Department of Energy has embarked on a process of revising sector codes and the Liquid Fuels Charter to produce effective legislature that will deliver meaningful transformation in the ownership of retail service stations, as the progress has been slow and failed to achieve the desired targets/goals.

Aim: The aim of this paper is two-fold, firstly to analyse the transformation initiatives implemented for retail service stations in the petroleum industry supported by Broad Based Black Economic Empowerment and other industry policies. Secondly, to investigate potential barriers to entry for Black South Africans in the ownership of retail service stations.

Setting: Primary qualitative research was conducted across representatives of several Petroleum companies as well as retail service station operators.

Methods: A qualitative research methodology was adopted for this study. The research instrument used was in a form of semi-structured interviews conducted on 11 participants. The interviews varied between 40min to 1h20min and the interviews were conducted at a location suitable to the participant.

Findings: The Petroleum Industry transformation policies have failed to achieve meaningful transformation due to a lack of clear objectives and targets to guide
the industry how to transform and the timelines thereof. Due to this lack of clarity, oil companies did not prioritise drafting and implementing meaningful transformation strategies. Even though there is presence of private/public collaboration, the execution thereof fails to comprehensively address matters relating to inequality, barriers to entry, access to capital and information to mention a few. As a result, it is a challenge for black South Africans to enter the industry and receive enough support and guidance to operate a successful fuel retail station.
INTRODUCTION

At the height of the apartheid system, economic and trade sanctions were imposed on South Africa resulting in huge trade deficits and low economic growth. Previous trade partners such as Japan sanctioned import of iron, steel and the Kruger rand, whilst the Organization of Petroleum Export Countries (OPEC) oil embargo had the greatest negative impact on the economy resulting in a net outflow of 16.2 billion Rands between 1986 and 1991 (Elliot, Hufbauer & Schott, 1991). On average, the cost of economic and trade sanctions on South Africa was estimated to 1.4% of the Gross Domestic Product (GDP). During the oil embargo and import sanctions, petrol prices were rapidly rising which negatively impacted the population, particularly black South Africans due to unemployment, whilst the number of white South Africans affected was insignificant (Hefti, 2019). Instead, contrary to the negative effects of the imposed sanctions, white people benefited from disinvestments via company acquisitions whilst black people suffered job losses (Levy, 1999).

South African transformation policies

In 1994, South Africa entered its first democratic government demolishing the apartheid regime that was in existence for over five decades. Apartheid was a mechanism that was used by the minority to oppress and gain control of the country’s resources by excluding and marginalising the majority of Black South Africans (Banda, Herzenberg & Paremoer, 2003). As part of the new political dispensation, various transformational policies were introduced with the aim of redressing historical injustices and bring about equity and fair distribution of the country’s resources. These included policies such as Black Economic Empowerment (BEE), Employment Equity (EE) and various industry specific policies to address South Africa’s socioeconomic status, specifically for those who were previously disadvantaged (Grobler & Van Wyk, 1990).
South Africa’s poor economic growth status had a negative impact on the implementation of transformation policies. The ANC government inherited a financial constrained fiscal from its predecessor, due to a legacy shaped by 50 years of apartheid rule which ultimately crippled the fiscal (Cawood, 2004). Furthermore, fiscal governance systems were highly fragmented which resulted in great inefficiencies (Ajam & Aron, 2007). Democracy brought about the need to replace the old regime policies with new equitable systems across private and public sectors; emphasis was on initiating change in ownership and development in sectors such as mining, finance and petroleum.

**Current state of retail fuels market and retail specific polices**

The Petroleum Industry is profoundly important to South Africa’s economy with almost every good and service bearing some element of fuel costs. South African Petroleum is a highly refined industry and serves a critical role to the health of South Africa’s economy contributing a total of R324 billion which accounts for 8.5% of the national GDP out of 15% contribution of the entire energy sector (Human Science Research council, 2017).

Industry policies such as The White paper of 1998 and The Petroleum Liquid Fuels Charter of 2000 were drafted to specifically address social matters of exclusion and enabled historically disadvantaged persons to enter the industry as well as provide support structures to assist new entrants to successfully build and operate profitable businesses (SAPIA, 2000).

Fourteen years into democracy; a substantial number of businesses, particularly African-owned continue to encounter high barriers to entry within the retail fuel industry due to a lack of support from both public and private sector and other structural barriers which will be further explored and discussed (DOE, 2011). This paper will also reflect on the lack of policy enforcement by the government to drive empowerment of small businesses and increase their participation in the fuels retailing industry. The lack of government intervention of setting realistic transformation targets has seen the industry maintain the same ownership demographic as prior to the new democratic political dispensation.
What the paper will explore?

This paper analysed the petroleum industry policy objective of transformation in retail fuels, implementation by government and the petroleum majors’ role in driving meaningful and sustainable transformation within the industry. The paper further explored various factors relating to the industry’s policies and the barriers to entry for Black South Africans and failure to succeed in this industry because of legacy structures. Because of the above mentioned; Southall (2006) highlights that the white minority had the privilege of monopolising, owning and controlling the means of production for decades. These monopolies contributed an average of 15% towards the GDP in the 1990’s. There were few well established black businesses under apartheid, these business owners were classified as “capitalists deprived of capital”. This meant they would require the state or private sector to fund their businesses to gain any means of ownership or control of the established organisations.

Retailing is one of the key elements in the Petroleum Liquid Fuels Charter in which transformation by means of fair participation of all races in owning and operating service stations across South Africa is a focal point. The central problem to this research is depicted in the table below which shows the Economically Active Population (EAP) statistics in South Africa; the stats indicates 78.3% Black South Africans as the most economically active population followed by Coloured persons, White and lastly Indian.
### Table 1

<table>
<thead>
<tr>
<th>Race</th>
<th>% Male</th>
<th>% Female</th>
<th>Combined %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black African</td>
<td>42.5</td>
<td>35.7</td>
<td>78.3</td>
</tr>
<tr>
<td>Coloured</td>
<td>5.4</td>
<td>4.6</td>
<td>10.0</td>
</tr>
<tr>
<td>White</td>
<td>5.1</td>
<td>3.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Indian</td>
<td>1.7</td>
<td>1.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Total</td>
<td>54.8</td>
<td>45.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Quarterly Labour Force Survey, Q2 2018

The current ownership landscape within retail fuel stations indicates 85.5% skewed towards the White population and 13% to Black South Africans (DOE, 2017). The business ownership in the petroleum retail fuels industry does not embody the EAP statistics of South Africa. The industry legislation, Petroleum Liquid Fuels Charter does not have clear targets/goals that can be used to measure organisations efforts of driving meaningful transformation. Support from government to ensure transformation is achieved can also assist in addressing significant barriers that pose as a challenge for new entrants in the market.

**The objective of the research paper**

- To examine the drivers of policy inefficiencies in transforming the retail fuels industry.

- To investigate the barriers to entry that prohibit Black South Africans to gain access and succeed in fuels retailing industry
LITERATURE REVIEW

This section provides a theoretical foundation and literature review for the study on the legacy structures of inequality and barriers that have been a hindrance in achieving meaningful transformation. Central to the literature presented in this paper is the threat of new entrants of the Porters framework, particularly focusing on barriers to entry in an industry that was historically accessible to the white population and as a result, this has a direct impact on the economic position of the non-white population due to the historical effects of barriers to access an economic market (Mokoena & Lloyd, 2005). It is also important to note that the five forces degree of impact varies across industries and that each individual force and its impact is determined by in large by government policies and changes in the macroenvironment. (Mohapatra, 2012). The contents of this literature cover a key area of the Porters framework namely threats of new entrants which focuses on critical elements of barriers to entry as historical structures of economic progression for the non-white race.

The significance of historical structures is embedded in the contrasting view of South Africa’s economically active persons indicating 78.3% for black Africans and 9% for the White population. An overview of Private Public Partnership was explored as an avenue of collective economic development through the joint effort of both the private and public sectors and the related benefit of the partnership. The paper looked at a case of policy implementation in Malaysia and South Africa which it deduced that for policy to be effectively implemented, government needs to be intentional about the objectives it sets to achieve, define how the objectives will be achieved, by when should the objectives should be achieve and lastly, identify key stakeholders to partner with in achieving these objectives. Lastly, the paper explored the petroleum industry’s transformation policy implementation and its impact thereof.
Inequality

In the nineteenth century, Novelist and previous Britain Prime Minister, Benjamin Desraeli used the metaphor of the two nations describing a division between the rich and the poor. This was due to the belief that the industrial revolution brought about economic and social changes which created significant economic inequalities. Building from Desraeli school of theory, President Thabo Mbeki classified South Africa as a country divided into two nations, however his view was underpinned by the racial organization of black and white in society (Nattrass & Seekings, 2001). He articulated the white population having access to infrastructure, economic opportunities and education in relation to the black population, the largest in numbers, continues to be laced with poverty whilst having little to no access to education, economic fair opportunity and live under inhuman conditions. South Africa is commonly known to be one of the world’s most unequal societies with highly differentiated earning capacity and as per the report published by the World Bank (2018), the report suggests South Africa’s high wealth inequality is driven by low intergenerational flexibility born from high inequality of opportunity cascaded down from generation to generation. According to data extracted from the National Income Dynamics Study (NIDS) for Sub-Saharan Africa, South Africa holds the highest statistics of inequality of opportunity which informs the changes in inequality for generations to come is little to insignificant and has possibly created a worsened social and economic environment. Statistics also show that not only is there great disproportion in the levels of poverty and inequality, South Africa is progressing poorly on inclusivity of consumption growth. Consumption led growth simply means there is an increase in household income which drives consumption therefore increasing the demand in the economy. This increase quantifies higher output which has a positive effect on growth. The main driver of Consumption growth is due to an increase in income as well as government tax reduction (Lavoie & Stockhammer, 2012). The next section will unpack different types of inequalities which have a high likelihood of driving economic exclusion favouring some races over others.
Inequality of Race

Racial discrimination was one of the mechanisms used to organise people in society’s social structures of education, employment, health and allocation of property. Under apartheid, a large number of Africans lost their right to access land they owned and used for subsistence for decades and were conformed to rely on wages to earn a living. Furthermore, public policies of systematic segregation and racial discrimination were instrumental to the development of capitalism which shaped the design of inequality in South Africa (Natrass & Seeking, 2005).
Inequality of Income

South Africa was intentional in designing income inequality under apartheid and as a result, these effects were explicit in wage earnings whereby racial discrimination would be applied. A salary of an African individual holding the same qualification and performing the same job as a white individual, would be two-thirds of the whites’ income, this practice was prevalent in the public sector. Therefore, what this means is one in 14 black people would get employment (Natrass & Seeking, 2001). In more recent history, research statistics show that the black population is burdened with high and longer unemployment periods which result in worsened economic opportunities for black South Africans (Magruder, 2010).

Inequality of Opportunity

The characterization of high-income inequality, high rate of unemployment and low rate of education and skills amongst the black population in South Africa, lead to the unintended consequence of access to employment inequalities (Magruder, 2010). In addition, Apartheid policies not only created circumstances of unequal opportunities, they advanced limitations and barriers for black South Africans in the attainment of labour market income which would impact growth prospects due to the type of employment made available. Given the historical context of the country, black South Africans were less likely to be employed in good roles with high levels of labour market income (Gradi´n, 2012: 219). The barriers to reasonable labour market income endured by black were driven by poor households, low levels of access to quality education, high unemployment rate and those who were employed, had extremely low paying jobs. These characteristics have disadvantaged black South Africans probability of gaining access to employment and the probability of earning income levels similar to other races (Gradi´n, 2012).
Private Public Partnerships

Public private Partnerships (PPP's) is a concept commonly known and adopt across the globe and has received a lot of recognition due to the intense focus of public finance initiatives to support economic and social activities facilitated under public expenditure (Bovaird, 2010). These partnerships are viewed as a vehicle to drive long-term public investments (Hodge & Greve, 2007). A PPP contracts or agreements consist of several features making it quite a challenge to propose a definitive definition however, Farlam (2005) defines PPP as a contract that exists between a State-owned Entity (SOE) and a private organisation, in this contract the private entity will bear most of the financial, operational and technical risk whilst SOE’s focus on empowerment, development and wealth creation. Therefore, for the purposes of this paper, a public private partnership is a mutually benefiting long term relationship entered by a public institution and an organisation in the private sector to facilitate capital intensive projects from inception right through to operations. The two parties attempt to gain value for money whilst appropriately managing the risk associated (De Clerk, Demeulemeester & Herroelen 2019).

Ahadzi and Bowls (2004) suggest there are significant inefficiencies in projects facilitated under PPP’s and this is due to misalignment during the contract negotiation phase. Advantages associated with this framework is the benefit to the public as well as sharing of the risk between two parties. Also, it is a lot easier for the public institution to raise funds from the market versus organisations in the private sector. Disadvantages related to this framework mainly refer to the risk inherited from either party which contributes to the complexity of the contract (Zou & Fang, 2008).

South Africa’s transition to democracy created a platform for Private Public Partnerships (PPP’s) to facilitate and support BEE companies to participate in economic activities. In 2007, OECD countries implemented PPP’s in transportation, energy and telecom markets whereas South Africa had set-up only 24 PPP’s since the year 1998 (Burger, 2006). The pace of implementation is relatively slow which impedes the strategy to drive economic development in South Africa. PPP’s are susceptible to political pressure and corruption it is for this reason it is advisable that the implementation of PPP’s is independent of political parties for the purposes of public policy continuity, therefore support and commitment from government in
implementing PPP’s is critical in order for them to succeed (Mitchell, 2007). PPP’s are functional to the development of infrastructure in South Africa however, the irony of this concept and its reliance on political will is that it can be extremely inefficient when operating under dire political pressure which brings up the need for these types of contracts to be thoroughly drafted and robust enough to resist possible corruption (Landow & Ebdon, 2012). Currently in South Africa, there is a total of 31 recognised PPP’s adopted by different sectors such as Health, Transport and Tourism since 1998. There are various projects implemented under this concept of which are governed by their specific contractual arrangements, these projects are: Design, Finance, Build, Operate and Transfer (DFBOT); Design, Finance and Operate (DFO); Design, Build, Operate and Transfer (DBOT); Equity Partnership and Facilities Management.

**Barriers to Entry: Threats of New Entrants**

The Porters Five Forces Framework founded by Michael E. Porter in the late 1970’s has been an influential management tool used across many industries to measure the attractiveness, viability and profitability of an industry using the outside-in double approach perspective (Johnson, Scholes & Whittington, 2008). The five forces framework depicted in the diagram below is underpinned by the idea that a company operates in a network of suppliers, buyers, substitutes, competitors and new entrants therefore providing a broader competitive lens and enabling existing companies to detect microenvironment elements that may impact their business (Dalken, 2014).
Often new entrants bring new capacity to an industry and most importantly, their primary focus is to gain market share. Due to the existence of barriers to entry, there tends to be a limitation of companies in an industry which heightens competition rivalry (Johnson et al., 2008). Porter highlights a significant correlation between barriers to entry and industry profitability and identifies the significance of the barriers is likely to predict a business’s profitability. Porter outlines in his theory six significant barriers, the theory outlined below will touch on cost disadvantages, capital requirements and government policy which carry a significant contribution towards the success of a historically disadvantaged entrepreneur venturing into a new industry (OECD, 2007)
**Barriers to Entry**

There are many different types of barriers to entry, however ones that are central to this paper are strategic barriers, structural barriers and legal / regulatory barriers. Strategic barriers are typically used by existing firms who dominate industries to influence the market to exclude new entrants from entering the industry which ultimately reduces the competition. Structural barriers are those that exist due to factors that are intrinsic to the way in which the market is structured. Some structural features of the market which can determine ease of access are sunk costs which is an up-front investment incurred by the entrant and has no guarantee of being recouped should the organisation decide to exit the market. Such costs not only make entry to an industry less attractive but, they are associated with high risk (Carlton, 2005). Existing firms also tend to adopt strategies that will position entry as unattractive to potential entrants and this is mainly achieved by either pricing high or extremely below the market, projecting falsified performance data to create a perception of low performance and viability.

In addition, a key structural barrier to industry for new entrance is gaining access to funding to set up the capital costs of the business. The likelihood of a new entrant gaining access to an industry and becoming successful purely relies on their ability to gain access to information and knowledge to overcome these barriers.

Some regulatory barriers to entry across various industries are tariffs, licenses and other economic requirements. Licensing requirements for example, can pose to be a burden on the potential entrepreneur as these requirements are a prerequisite to obtain operating rights. Regulatory barriers tend to be associated with policy interventions and influence economic regulation which aims to increase the access to various industry economic activities (Vilakazi, 2015).

South Africa is laced with high levels of inequality and unemployment and poverty therefore the importance of understanding the extent of barriers to entry in any economic activity is key in order to hold government, policy and regulatory intercessions address the issues of economic exclusion in each industry. Over the years, much debate has been carried out in understanding whether or not
barriers to entry can be used to determine the level of competition an industry however, Vilakazi (2015) highlights to date there has been very little to no progress in removing barriers to entry within some industries, particularly the liquid fuels industry therefore preventing new entrants from participating in areas such as wholesaling, retailing and refining.

Transformation Policies: A case of Malaysia and South Africa

Economic Transformation

Economic reform is central to countries such as South Africa, Malaysia and the USA that have undergone a historical system of racial discrimination whereby the control of the means and modes of production was central to achieving social and economic exclusion of others (Balint, Lasslett & Macdonald, 2017). Post-communist countries that went through an economic transition have produced different economic results. For example, CEE countries such as Malaysia outperformed countries of Former Soviet Union such as Russia (Lenger, 2008). Under any transitioning political and economic regime, countries tend to inherit some form of constraints which ultimately will have an impact on the incoming reform strategy (Kaja, 2014). In addition, it is important to consider there are several factors that determine the economic outcome of a transitioning economy and some of these factors include initial economic condition and transformation policies implemented (Lenger, 2008).

Malaysia

Malaysia was dominated by the British who were the majority owners of tin mines and plantations as well as monopolized international trade (Gomes & Jomo, 1997). The Britain’s were successful in dividing the population into Bumiputera (49%), Chinese (37.2%) and the Indians (11.3%). These ethnic divisions had a direct impact on allocation of preference in education, social, religion and economic participation giving rise to ethnic conflicts with dire consequences (Eyre, 1997). Malaysia strife to gain independence from the Great Britain was
realised in 1957. The country was faced with challenges of repairing socio-economic injustices imposed on the Bumiputera as policies formed prior the independence favoured the Chinese who are the minority population. These policies enabled the Chinese freedom and opportunities of participating in the mainstream economy at the detriment of the Bumiputera (Gomes & Jomo, 1997). According to Eyre (1997) economic segregation accelerated significant inequalities whereby the Chinese were advanced in key areas of employment, education and entrepreneurship. The New Economic Policy (NEP) was Malaysia’s vehicle of transformation that was implemented to uproot the historical legacy of injustice and exclusion through wealth redistribution and create social policy in order to drive national integration (Mokoaleli-Mokoteli & Ojah, 2016). The NEP consisted of a two phased approach; the first was to eradicate poverty in the country and in order to achieve this government created opportunities of employment as well as increased standard income levels to ensure households operate above the poverty line. Secondly the policy aimed to remove all barriers that promote racial divide which has a direct link to economic progression. Ratuva (2013) argues that the NEP was a successful policy which sought to achieve its purpose. Twenty years post the inauguration of the NEP, poverty levels reduced significantly across all ethnic groups to 20.8% for Bumiputera, 8% for Indians and 5.7% for Chinese. Jomo (1995) emphasises that not only did the NEP create opportunities of employment in the public sector; it also facilitated and incentivised the Bumiputera to pursue industrial and commercial entry by means of providing capital, loan facilities, education and training. In the public sector however, the state facilitated the process of industrialization and privatization to ensure that state resources are directed to targeted persons. To be specific, the dominating and powerful UMNO political party facilitated the wealth generation of the Bumiputera elite.
**South Africa**

The origins of apartheid can be traced back to the 19th century in Natal. The English Labour Party proliferated segregation to protect white people, labourers and those who are poor, from cheap black labour on the agricultural field, mines and civil service which were the main sources of employment (Krantz, 2008). It was in the 20th century that the ideology of segregation was advanced in South Africa, this ideology transformed into legislative acts removing, restricting and controlling the movement non-whites is specific areas. Segregation was deployed in employment through the 1911 Mines and Works Act; deployed in land purchase through the 1913 Native Land Act, deployed access to residential areas through the 1923 Natives Act. All these acts formed part of the countries extensive prejudiced law which was biased to one race. Access to services and facilities such as health, transport and education were specifically arranged according to a racial preference; this was done so to organise society in a legitimate racial grouping in churches, schools, residential areas as well as ingrain practices of social inequality in these social structures (Beinart & Dubow, 2003). These elements of segregation transitioned from an unofficial social contract to manifest into law. Wolpe analyses the migrant labour system as the core engine of apartheid. South Africa’s economy under the apartheid era generally performed well and this attribution is linked to the relaxation of the restriction to non-white employment policies, especially during periods of rapid economic growth. A case in point, the mining and agricultural sectors endured a shortage in labour supply relative to land in turn mine owners and farmers exerted pressure on the government to pass land alienation policies which saw a black peasant farm or miner transform into a low-wage earner (Lowenburg, 2014). Even though the government of the time showed great commitment to white rule, it was in the 1970’s that the country needed to accommodate interconnected processes with other races that accelerated the need to transform. Within the white constituency, there was a shift in economic interest, this was a result of a paradoxical condition created by apartheid whereby the realization of maximum profits by the white group meant the integration of the black labourer (Lowenburg, 2014).
Independence of the oppressive regime was realised in 1994. Nathan (2004) argues that there is evidence which shows that the country has progressed from being a state of authoritarianism, human rights abuse to that of democracy, rule of law and freedom. Further echoed by Cawood (2004), the interpretation of the new political dispensation is the initiation of a vigorous political and economic shift in the development, management and control of the country’s energy and mineral heritage. Therefore, rigorous policies were put into place to redress the negative effects of the apartheid regime. (Mokoaleli-Mokoteli & Ojah, 2013). Contrast to Malaysia, South Africa implemented a number transformation of policies post 1994 however, the relevant transformation policy, similar to the NEP in Malaysia, is the Black Economic Empowerment (BEE) policy which was established to drive fair and meaningful socio-economic transformation in South Africa across various sectors of the economy through a mechanism of wealth distribution to reduce poverty and unemployment (Van Jaarsveld, 2005). The Black Economic Empowerment Act legislated in 2004. Rowland (1996) articulates the purpose of empowerment is to include those who were intentionally excluded from decision making and this may involve participating in decisions of political structures as well as activities relating to the economy. Empowerment is enabling people to exploit all opportunities available at their disposal without permitting constraints to be a barrier. Successful empowering gives people the right and access of decision making without denying them a sense of competence and entitlement of being part of decision making. Some achievements of BEE, Kruger (2011) highlights that the growth strategy of the Department of Trade and Industry focused on extending participation of Previously Disadvantaged Individuals (PDI’s), mainly Black South Africans, into both the private and public sector with the assistance of empowerment policies of Employment Equity Act (Act 55 of 1998), Preferential Procurement Policy Framework Act (Act 5 of 2000) and Skills Development Levy Act (Act 9 of 1999).
The BEE policy received much criticism on the basis that it benefited only a few black elite and politically connected persons closing out the largely historically disadvantaged entrepreneurs. Fundamental elements of poverty and unemployment which BEE was aimed to address remained unchanged as the rise of black corporate lobby groups took form in order to get a head advantage of business opportunities. This created an impression of BEE as an enrichment process for those few Black South Africans who have some sort of political affiliation (Heese, 2003). Moeletsi Mbeki, criticised BEE for intentionally working against the rise and prosperity of black entrepreneurship, but instead created a small class of elite blacks within the political structures of the ANC who’ve proven little to no productivity with the exception of building their own wealth (Mbeki, 2009). BEE and its affirmative action subsidiaries have been used as the gateway to enrichment and disappointingly have become the black ideology for in pursuing elitisms and material accumulation. Other authors have expressed their observation of a mechanism that has achieved very little change in reducing poverty and unemployment, providing housing and access to basic services (Mahadea & Simson, 2010).

The following section will provide a brief overview of the energy sector and its respective significance to Africa as a critical commodity which draws the attention on the importance of the petroleum industry and its journey of transformation.

**Petroleum Sector and Transformation**

*Petroleum in Africa*

Generally, there is a strong correlation between global economic growth and energy consumption, particularly petrochemical. Oil is and essential resource that also accounts for a third of the world primary energy, petroleum products fuels over 95% of the transport system across the globe and is responsible for the supply of a confounding range of petroleum products (Wakeford, 2012). Africa constitutes of developing countries and they bear a heavy reliance on energy consumption for sustainable economic development. In a study conducted across
20 countries, the report suggests in twenty-five years to come, 70% of energy consumption will be allocated to wood fuel which is closely followed by petroleum therefore; the demand of energy is linked to the price of petroleum, GDP, industrial development and population growth (Kebede, Kagochi & Jolly, 2010). The rapid growth of Africa with a population of 1.2 billion people has seen an estimation of 2.5 million barrels of oil consumed in Africa per day rise to 3.5 barrels in 2010.

Graph: 3

<table>
<thead>
<tr>
<th>Energy Consumption by Source</th>
<th>Energy Consumption by Sector</th>
</tr>
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South Africa is the largest consumer of primary energy in Africa accounting for over a quarter of total oil consumption in the continent. With over 4600 service stations that sell petroleum and diesel product to the general public in South Africa, the country has oil reserves amounting to 16 million barrels however this quantity does not meet the greater demand of oil therefore, the country bears heavy reliance on importing in order to meet the demand (DME, 1998). Between 1994 and 2006, the demand has grown by 3% and is accountable for 55% oil consumption locally.
South Africa’s Petroleum Industry and Transformation

South Africa’s petroleum industry is characterised by six oil majors – BP, Engen, Chevron, Sasol, Shell and total however small players such as Puma Energy are growing and starting to capture significant market share. These players account for approximately 70% of retail volumes with the other 30% fuel being sold by small independent players (Lewis, 2013). Transformation, or the lack of, in the liquid fuels value chain has been an ongoing deliberation in South Africa. During the apartheid era, the government channelled investments and provided support to the sector to ensure security of supply especially given sanctions that were imposed prior 1994 democratic transition. Over the years the sector continues to be comprised of large oil companies, with refining capacity, importing fuel because of historical favourable policy environment. (Vilakazi, 2017).

Roux (2002) articulates transformation as a process whereby a government and its executive public institutions must scrutinise their vision, mission and strategies and abolish the necessary existing policies and supporting governing laws and operations that do not align with the future plans. Central to the process of transformation is the ability of all stakeholders and political institutions to change their mind-set and behaviour in order to drive the proposed change however, transformation as a larger entity cannot be limited to the mere concept of change. Transformation necessitates the creation of a new paradigm therefore, one has to take into consideration the involvement of all government structures and systems, core outputs, employee profiles, competencies and management approach.

The inauguration of a new democratic government in 1994 compelled a review of the existing policy to promote economic inclusivity across the liquid fuels value chain as per the Liquid Fuels Charter, an addendum to the Petroleum Products Act (No. 120 of 1977) (Cawood, 2004). The Liquid Fuels Charter (LFC) also known as the Charter for the South African Petroleum and Liquid Fuels Industry is a framework that was signed in the year 2000; its implementation was aimed at achieving the Energy White Paper policy objectives under economic development, particularly targeting the progression of transformation within the
petroleum industry as well as to align with the Broad Based Black Economic Empowerment framework (SAPIA, 2018). In order to ensure meaningful and sustainable presence of historically disadvantaged persons, the charter aimed to achieve 25% ownership and management of control in all the oil companies across the industry amongst other milestones outlined in the charter. The purpose of establishing this legislation was to correct past injustices of marginalisation of black people who were deliberately alienated from participating in the petroleum economy. Therefore, according to the LFC (2000), transformation is to be achieved through the provision of fair opportunities for persons who aspire to enter the retail network.

A verification audit was carried out by the Department of Energy in 2011 and the purpose of the audit was to take stock of transformation progress within the industry; this audit was carried out on the top six oil companies operating in South Africa. The oil companies audit was based on the liquid fuels charter thirteen elements of transformation to ascertain compliance and measure progress (DOE, 2011).

Graph: 4
The audit reported by an industry verification agency, indicated 80% of retail station ownership by the white population, 93% volume contribution by white people and an average of around 50% ownership and volume contribution in urban areas. The Indian population ranked second with overall 19% ownership and volume contribution followed by 14% of the black population and the coloured population with a mere 4% presence (FRA, 2017).

**Conclusion**

Different dimensions of inequity have created barriers for those less privileged to access various structures of society. In his theory, Porter positions that the higher the barriers to entry, the chances of gaining access to an industry are little to none therefore Under apartheid, various socio-economic structures were constructed and passed as law to deny opportunity of success to persons of other race but white. Collaboration between the public and private sectors are meant to empower society through development and wealth creation. Governments capacity to raise funds and the private sectors specialised expertise in different industries jointly reduce the country’s unemplyment status by creating successful entrepreneurs. In the same note, these partnerships have been tainted with corruption and have an affiliation with government which derails them from achieving their intent. An extension to inequality is the burden of overcoming industry barriers to gain entry which feeds into the issue of economic exclusion at hand. Transformation is a holistic effort that requires not only government institutions intervention to ensure policies are carried out but also to hold its trade partners accountable for not complying with the policy demands. Both parties have to drive the same objectives which will benefit the partnership and the country.

A learning for South Africa; the main objective Malaysia was able to achieve through the NEP is that it did not only seek to ensure that communities do not experience any further deprivation but it outlined the role the state should play with clear development targets and timelines in place in order yield positive
results from this policy (Mandla, 2006). Some of these targets included integration of the Malays within the corporate sector and the success of this integration relied on the state provision of basic services such as housing, sanitation, water supply and transportation to mention a few. It was the responsibility of the state to invest and modernise rural communities and creating a Malay commerce and industrial sector.

Research Question

The identified socio-economic and structural barriers were the basis of formulating the research question. In order to qualify the research successful, the following question had to be answered:

Do transformation initiatives implemented for the retail fuel stations achieve what their stakeholders proclaim they do?
RESEARCH METHODOLOGY

In the quest of addressing the research problem relating to transformation within the fuels retail industry, the paper has addressed the effectiveness of policy implementation to facilitate an inclusive economic culture for all race groups to actively participate in the petroleum which promulgated a transformation charter in the year 2000. Various parts of an active economic society such as petroleum companies, state owned entities, aspirant retail station operators, current retail station operators as well as those who have exited the industry, have played a role and, to different degrees, have been affected by the pace of transformation in this industry. In order to systematically obtain insight from the different facets of society, a qualitative research approach would be identified as suitable for this paper. In general, qualitative research differs from scientific research in a sense that qualitative research method enables us to obtain the “human” side of the issue at hand through means of expressing beliefs, emotions, behaviours and understanding relationships that exist between people (Neuman, 2000).

The selection of a sample carries a lot of weight in so far as ensuring that those affected and external sources are able to deduce it as indicative of the broader society (Morse, 2008). According to Palys (2008), there is no best recognised sampling strategy, and this is purely because the chosen strategy needs to align with the context and the objectives set out by the research. Purposive sampling also known as selective sampling (both considered other types of non-probability sampling) is the chosen method of this study and is a tool of information collection that intentionally selects a sample based on the objective of the study.

For the purposes of this study, stakeholder sampling will be applied. This form of sampling strategy is befitting in the context of policy analysis and evaluation research; it identifies stakeholders that are either affected or those who are involved in the study or policy being evaluated (Palys, 2008).

Research design is understood as the strategic framework which can be used to collect data. It is also referred to as a plan in which selecting a subject, identifying a research site and data collection can be used to answer a specific research
The purpose of research design is to provide results that are deemed to be valid and credible.

The research design adopted for this paper was in the form of an investigation carried out in the South African Petroleum Fuels Industry. The data was primarily collected through interviews from industry experts and aspirants. The data was collected from two sets of respondents who all are industry experts however differentiated by those who are the creators and influencers of policy and those who are impacted by the policies in place. Understanding the role of the respondents in the industry, they were likely to be biased in their narrative, therefore in order to understand the views of the respondents an interpretive approach was adopted.

Qualitative research is generally associated with three sources of data collection namely in-depth interviews, focus groups and participant observation. Only one source, in-depth interviews, was used in this study to collect the data.

Population

The population composition of this data collection included all persons that are working in the petroleum industry for oil companies as well as those that run their retail businesses. The composition also included persons that work for state owned entities and industry representative bodies that assume influential roles in industry policy formulation.

Sampling

The targeted sample is a composition of two groups; the first sample consist of current retail station business owners and aspirant retailers who have been in retailing across a varied number of years. All the candidates in this sample base are those who are directly affected by the industry policy. The second sample consists of key informants who are industry experts that shape policy, strategic partners as well as the regulator. These respondents assumed various roles across the industry ranging from the Chairperson of a giant multinational oil company as well as Chairperson of the South African Petroleum Industry
Association, Head of Transformation, Government Regulation and Compliance, Head of Post Investment at a Development Finance Institution, interim CEO of the Petroleum Liquid Charter Council and Vice President for Chief Compliance and Ethics Officer. A total number of 11 semi-structured interviews were conducted o which six were made up of those impacted by industry policy and the other six were the industry policy makers and influencers.

A targeted approach was adopted when conducting the interviews in order to obtain relevant and useful data from respondents. Therefore, it was important for the respondents to participate freely and voluntarily in this research so that credible information could be solicited. In each interview, candidates were assured of their confidentiality and that an aggregate approach would be applied when analysing the information, therefore their identity, personal views and inputs will not be disclosed.

The instrument adopted for this research was that of semi-structured interviews. These interviews were conducted face to face with all respondents at a geographical location that was suitable for them. A questionnaire was prepared by the researcher which was used as a tool to collect data in the interviews.

According to Adcock (2001), content analysis is a framework which is used to analyse texts, interviews and documents; it aims to measure the content in a methodical manner so it can be allocated to predetermined categories. The content analysis method will be adopted to analyse and interpret the data collected.

Few limitations have been identified in this study. Firstly, the study assumes the retailing industry as it currently is today, should the government change policy the proposition of the paper would be irrelevant. Secondly, the population and sample size used to conduct the research poses as a limitation as it is not broad enough to represent the entire Petroleum Industry. Thirdly, the research method adopted is limited to the top six players in the petroleum industry and does not take into account emerging Oil companies whose analysis may pose a different view. Also,
the research method is constrained to the petroleum industry therefore B-BBEE in this regard may not be understood as a generalisation

Validity in qualitative research is underpinned by the accuracy in data capturing to ensure biases are eliminated from the analysis but only represent the views of the respondents. According to Burns & Grove (2012), the validity of the content is either obtained through the relevant population, industry or sector experts, representatives and literature.

The reliability of the study proves whether or not the results of the research are repeatable. As described by Golafshani (2003), the reliability of a study is determined the consistency of the results over time and that it reflects an honest representation of the population under study.

In qualitative research, the measure of data validity and reliability is grounded on trustworthiness which is categorised into dependability, credibility, transferability and confirmability (Golafshani, 2003).

This research study has involved policy representatives and industry experts who both represent various Oil companies, strategic partners such as the NEF as well as policy makers and influencers. These representatives have in-depth industry knowledge and understanding which can qualify the credibility and transferability of the research.

The purpose of external validity is to test and determine the ability of whether the research results can be used beyond the specific case in study (Rothman, 2007). The sample for this particular study was selected in order to ensure external validity, the respondents are representatives of those who create the policy and those affected by the policy affected such as the Oil companies, NEF, SAPIA, retailers as well as prospective retailers.

Central to reliability is testing whether the results of the research study can be repeated. Due to the limited sample size used for this research study, determining the reliability of the cast study methodology and semi-structured interviews can be a challenge (Golafshani, 2003). As a result, the study cannot confirm the
reliability of the study simply because the validity of the interviews cannot be
determined. For this qualitative study, the use of dependability as a measure is
more realistic. Dependability can be achieved by means of ensuring that all data
that is collected is documented and kept. Adhering to the interview guidelines and
being consistent with the questions posed to the respondents should enhance
dependability.
RESULTS

The following section analyses the data which was gathered from the semi-structured interviews.

Profile of the respondents

A total of 11 respondents participated in the semi-structured interviews. The institutions that are represented by the respondents is a composition of three Oil major companies, service station operators, National Empowerment Fund, Liquid Fuels Charter Council, South African Petroleum Industry Association and aspirant operators that are currently in Property Development and Retail Industry. Due to the sensitivity of information shared in the interviews, the identity of the respondents is be protected and participants requested to remain anonymous.

Table: 2

<table>
<thead>
<tr>
<th>Description of respondent</th>
<th>Sampled number</th>
<th>Exposure to industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson of Oil Company</td>
<td>1</td>
<td>29 years</td>
</tr>
<tr>
<td>Interim CEO of Petroleum Liquid Charter Council</td>
<td>1</td>
<td>3 years</td>
</tr>
<tr>
<td>VP Ethics &amp; Compliance of Oil Company</td>
<td>1</td>
<td>6 years</td>
</tr>
<tr>
<td>Transformation, Government &amp; Public Affairs of Oil Company</td>
<td>1</td>
<td>3 years</td>
</tr>
</tbody>
</table>
Presentation of findings

The findings expressed in this study are experiences, views and feelings shared by the respondents in relation to transformation in the retail fuels industry. For the purposes of interpreting the findings, all respondents are coded as respondent 1 to respondent 11 to ensure their anonymity.

Applying for a service station requires the involvement of the oil company, funding partner and Department of Energy. How easy is it to apply?

3 respondents shared their experience when applying for a retail fuel station. Respondent 1 expressed her frustration prior to obtaining her business, she was first interviewed by an oil company which the process took almost 3 months. She proceeded to share that in the interview, she was requested to do a business plan for the site she was applying for and populate a five-year cash flow outlook to
demonstrate viability. After being granted the letter of acceptance, she was then referred to the National Empowerment Fund (NEF) where additional information was requested. NEF requested that she provides a valuation using assumptions of the site income and expense statement to get to a suitable funding price. The process took 4 months before being granted the funding approval then was referred to the Department of Energy to apply for a retail licence. The DOE uses a Net Present Value method to calculate viability of the site and only conducts the analysis on the forecourt before granting the retail licence. Respondent 5 experienced a similar encounter and she expressed her frustration of the disintegrated processes amongst partners. She adds “The processes between the oil company and the funding organisation and the regulator were not integrated as on one hand its congratulations, you’ve got the site and on the other it’s, go find the money and the retail licence! As a result, I only started trading after 1 year 7 months of receiving the appointment letter”. Respondent 8 holds a holistic view as she works with all stakeholders and echoes the sentiments of no alignment of processes between the three organisations. “Everyone is driving their own agenda and yet the one person we should be empowering is left frustrated, the applicant. There are too many duplications and inefficiencies which deter the newly appointed Operator. Some of these people once receiving the letter of appointment resign from work only to wait for another two years, with no compensation, before operating the site”.

All of the respondents acknowledge the importance of the partnership between the public and private sector to ensure an all-inclusive and sustainable approach towards transforming the petroleum industry. Respondent 4 is a key policy influencer and has shaped many policies such as the Liquid Fuels Charter stated, “It is for the Controller to push for transformation within the petroleum industry and as such, the establishment of B-BBEE codes in the private sector is incentivised through the point scoring system”. The respondent further stated that partnerships are indeed there however require strong political will and for business leaders to rise to the occasion and not treat this requirement as a mere charity initiative however it is firstly the right thing to do and secondly it is a national imperative. Respondent 7 shared their views that there has not been a
clear demonstration of public/private partnership to align ownership with the country’s EAP statistics, she made reference to legislation highlighting that if transformation is aimed at historically disadvantaged persons who are Africans, Indians and Coloured’s; why is it that across the industry, second to white males, the allocation of sites is skewed to Indians. “There has not been a conscious effort to consider black Africans”. Respondent 9 also believes collaboration between government and the private sector is there however is limited to the availability and quality of opportunities that arise. The respondent further mentioned that Oil companies and FDI’s can ensure there are funds available, however if the worst performing sites are continuously the ones becoming available for Africans wanting to enter the industry; it forfeits the entire purpose and intention. “Providing 100% gearing for a site that is performing below the minimum average and allocating it to a person who lacks industry knowledge therefore is incompetent to operate a service station is really setting up someone for failure”. There were few respondents that believed some entrepreneurs don’t get opportunities because those in power have identified their beneficiaries.

What determines the operations and sustainability of a successful retail station?

Majority of the retail sites that become available for purchasing or operating are unfortunately sites that perform low volumes. According to respondent 10, low pumpers are classified as sites that pump a literage of less than 300 000 litres; also, the funding institution has capped disbursing loans for sites pumping below this threshold. “Capital is important, this is a cash intensive business which takes money from the bank before you make it therefore one needs to always have sufficient cash flow to survive” says Respondent 10. Respondent 1 and 8 further adds that the Oil company debits on fuel delivery and not on fuel sales, therefore capital guarantees one’s success. “An Oil co will prioritise someone who has money and unfortunately those who don’t have funds have a low chance of being granted an opportunity” Respondent 9. All of the respondents strongly supported the importance of capital in operating a retail fuel station. Most respondents are aware a retail station is a cash business and that the survival of anyone operating in this space is determined by having access to capital. Respondent 8 expressed
that even with a funding institution assisting, they also do their due diligence to determine the risk exposure. Candidates who have no deposit or collateral are likely not to be considered as they are classified as high risk also given the fact that most retail sites available tend to be the low pumping sites. Respondent 9 advised that on average, a new entrant is required to have a minimum of R3 000 000 in order to commence trading.

An interesting view posed by respondent 7 was positioning capital as a qualifier and a disqualifier. South Africa has a high unemployment rate of which government has been promoting and encouraging young people to not only pursue employment in the form of seeking for a job but encouraging them to create their own employment and become entrepreneurs. In order to become an entrepreneur, one needs capital investment and with no base of funds these young people cannot even begin to conduct research, let alone enter an industry. In addition, Respondent 6 expressed that capital is not the only determinant of success as they stated that on requires a host of other competencies such as financial acumen, strategy and commercial thinking and many others to succeed. The respondent further added that in their experience of being in retail they have witnessed many operators who have run their businesses to the ground due to a lack of the required knowledge to operate.

All respondent believes government and organisations are able to open doors however, they need to equip and capacitate the individuals with the right tools in order for them to enter industries and operate in a sustainable manner.

*Is the selling of a retail fuel station regulated? How does this affect interested entrepreneurs?*

There was general consensus amongst the respondents that Operators operating company owned sites who desire to exit the network have the liberty of selling their business operations at a premium price. 8 respondents shared the same sentiment that historically the Oil company has not been involved in the sale of a retail fuels business as it is a deal between a willing buyer and a willing seller. Due to this historical practice, sellers would advertise their businesses at a very
high amount which made it difficult for new entrants to enter the industry. Respondent 9, “Oil Companies and government need to come together and find ways of making cheap capital available, expensive capital does not address the core issue of transformation. They also need to play a critical role in the sale process”. He further expressed, “if an entrant is given a half success opportunity and yet has to borrow the full required investment, they are bound to fail at some point as with 100% gearing for this opportunity, you are sitting with a sub-optimal profitable site and this will lead to failure”.

Linking with the question above, what is goodwill and how does it impact the industry?

According to respondent 1, high goodwill does not enable Africans to enter the industry due to affordability; there has to be a formula that will determine what retail fuel stations should cost. Respondent 2 adds that, you find service stations pumping 100 000 litres and yet selling at R5 000 000, this is by far not sustainable as that site is pumping below threshold and the dealer will never make any money. There are other operating expenses that increase every year such as wages however a site pumping low litres may have to cut back on some important and justified expenses. She further expresses her view that Dealers should not be charging goodwill for Company-owned sites as they don’t own the asset. Respondent 4 believes goodwill is expensive for any new entrant who still needs to raise working capital to operate. “Goodwill is really determined by the market which is buoyant that exchanges on willing buyer willing seller. Franchisees insist that they build the business to what it is therefore are entitled to goodwill however, there needs to be checks and balances in place”.

Respondent 9 opposes goodwill and believes that goodwill is vested within the brand of the Oil company. He expresses that when sites exchange hands from a White operator to Black, goodwill can be charged at a maximum of R10 000 000 which; expecting a historically disadvantaged African person to have access to this capital of even find a financial service provider that will take a risk on a profile that has no collateral or security. Lastly, the respondent expresses that he fails to understand the concept of goodwill as it is the Oil company that finds the prime
location, builds the infrastructure and sets up all the systems and processes therefore if anyone should be charging the goodwill, it is the Oil company for the great brand and convenient location. He concludes by saying that service station operators sign a lease agreement for a stipulate period of years to operate the site therefore there is no reason why they should be charging any goodwill.

Is there sufficient information shared to educate the public on this particular industry and opportunities available

General consensus was shared in that it is essential for industries, especially those that operate in a technical space, to ensure that there is sufficient information and knowledge provided to the public. Entering the petroleum industry has proven to be a challenge not only because of barriers of capital and access to land, however Oil companies are not doing much to position themselves as organisations that are easily accessible and communicate opportunities they have in the value chain. “The industry is not doing much to attract females; most females operating sites are white females who have partnered with their husbands. “As it is, there are no black female or youth running a successful high pumping service station in the petroleum company I am partnered with” said respondent 1. Respondent 2 who has been in the industry for over 30 years explains that there is a perception that this is a quick money-making industry, and this is due to the fact that there is no education provided by oil companies or the DOE. “Black people use their pension money and take up loans to buy into a business that is overpriced and not performing well, the business closes and leaves the black person in debt”. 5 respondents shared strong views that institutions such as the NEF, DOE and the Oil companies should educate people about the fuels model. This view was supported by respondent 10 who advise that there should be robust mentorship programs for new entrants due to technical dynamics of this industry. “The industry is in need of technical mentors who have extensive industry knowledge and experience; these people need to run training centres for new entrants and must be accessed by all Oil companies to ensure there are no biases towards any Oil company.
Respondent 1 further added that as a young black female running a low pumping service station, she believes there is little information available to the public as entrepreneurs wouldn’t be getting themselves in deals that are economically not viable and yet the likes of the NEF should be providing guidance, support and advise on investing in this industry. The respondent believes the role of mentorship also serves as a gatekeeper which educates and informs an entrant before they commit themselves. Respondent 6 also expresses his views that this industry is quite a closed industry “oil companies prefer going with experienced operators who are already in the industry; perhaps this could be one if the ways in which they de-risk the model which doesn’t give a chance to aspirant operators”.

Most respondents agree that capital has been made available, however 3 respondents state that people benefiting from this are those in the niche market, the black diamonds that have a strong educational background and are well established in society or have close relationships with internal people. Ordinary folk hardly know these opportunities exist.

Has policy made a significant impact on improving the pace of transformation within the Petroleum Retail Industry?

All respondents had a high-level understanding of the liquid fuels charter (LFC) and that its core mandate was to give guidance to the Oil companies to drive transformation across various elements within the petroleum industry. “LFC deals with issues of ownership, access to ownership of the retail network, access to infrastructure such as terminals, depots, road transportation and procurement of 30% crude from Black people” stated respondent 8. Supporting this view, respondent 4 adds “The LFC was a government initiative that was designed to guide oil companies on how to transform. It however doesn’t address empowerment of the lower base being the petrol attendants. The respondent further expressed that the biggest flaw of the LFC was that it focused on ownership and neglected the importance of all other elements in the charter and as a result, the industry has not yet transformed. There was a mutual belief that there aren’t enough black Africans in the industry, especially those running
successful sites. Respondent 3 said “the industry practise over the years has been such that it’s a given that contracts are going to be renewed with the Operators currently in the Network giving the impression that he owns the site for life”. Respondent 6 supported the above statement as he mentions that the industry is not transformed due to legacy contractual agreements that once removed, there will be a lot of resistance from those currently in the system. He further adds that this calls for the very definition of transformation to be revisited and there needs to be a clear definition of who falls within the parameters of transformation, define targets by race as the Historically Disadvantaged definition seems to favour some races more than others. “Indians have been traders for over 300 years and have accumulated generational capital therefore, they have buying power and that is why they are second to white people when it comes to service station ownership”.

Respondent 9 shared that majority of the deals he processes are Dealer-owned commercial deals and 90% of them are white owned properties. “These deals are ideal for an oil company as there is less capex investment from us”. Most respondents shared the same views that due to historical practices, black South Africans do not have access to land and due to this, can only access this industry through sites that are owned by the oil companies.

Some respondents believe there have been some efforts made by government and respondent 8 supports this view in so far as sharing that all Oil companies are compelled to contribute 3% of their net profit towards Enterprise Development as well as Supplier Development with a Development Financial Institution of their choice. Respondent 4 further supported this view stating BEE has played a role in a sense that 90% of sites located in the township are owned by black Africans. The majority of the respondents however believe there has been little to no implementation of the policy. Respondent 3 assertively stated that there is much resistance from the industry due to historical behaviours hence lack robust policy implementation on the ground. Respondent 5 also supported this view stating, “the policy is well documented however it is not translating on the ground and it is unfortunate that no one is being held accountable”. The rest of the respondents
were also in agreement that there has been very little movement on the ground in terms of policy implementation.
DISCUSSION

This section of the paper deals with the data that was collected from the interviews conducted, secondary data collected from literature as well as data collected from the multinational Oil Companies. The research used direct content analysis to help expand and validate views on existing research (Hsieh & Shannon, 2005).

There are several themes that emerged from analysing the data and these themes are as follows: Integrated Application process, Capital Investment, Legacy of Goodwill, Barriers to entry and Impact of Policy on Transformation.

This section seeks to validate based on the analysis of the results that economic transformation in the fuels retail industry has not been realised since the promulgation of the Fuels charter in 2000.

Integrated Application Process

All respondents agree that the application process to be retail fuels franchisee is engulfed with red tape and consists of too many processes, some of which are a duplicate. Entering the industry is quite complex by sheer design of strategic partner association that is required to see through the application end to end process. The partners that are involved in the application process are both private and public organisations which include but not limited to the Oil company, DOE, financial service providers and the various councils. The consolidation of processes between the stakeholders and making the information available to the public can reduce the recruitment period drastically. One of the respondents mentioned the time frame from application to appointment took 1 year 7 months to conclude. A unified approach amongst the partners is central to supporting new entrants into the industry. This view is supported by Hodge and Greve (2007) that where there is an efficient private public partnership, long-term public investment and social development can be achieved which will boost the country’s economic performance. Further to this funding is made available by the government state owned institutions to inject in initiatives that will support social and economic activity however, as stated by some respondents that government
needs to take the lead in driving the implementation of transformative projects and ensure continuity and sustainability of social and economic development (Mitchell, 2007).

**Capital Investment**

There is strong consensus amongst the respondents that capital is a key determinant of operating a successful business in the retail fuels industry. Respondents who are operating service stations concede that the operations are cash intensive therefore a franchisee needs to constantly have sufficient cash flow. The ability to invest in a business requires one to have access to funds and in cases where one needs to secure funds, financial services require collateral or some form of security to manage their risk exposure. All of the respondents identified getting access to enter the industry as the biggest challenge due to affordability challenges for black South Africans, table 3 shows a typical investment required up-front to operate an existing service station.

**Table: 3**

*Initial Capital Investment*

<table>
<thead>
<tr>
<th>Dealers on boarding Training</th>
<th>R 30 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Guarantee</td>
<td>R 750 000</td>
</tr>
<tr>
<td>2 x wet stock</td>
<td>R 1 500 000</td>
</tr>
<tr>
<td>C-store dry Stock</td>
<td>R 1 000 000</td>
</tr>
<tr>
<td>Bank Cash-drop Safe deposit</td>
<td>R 40 000</td>
</tr>
<tr>
<td>Water &amp; Electricity Account</td>
<td>R 50 000</td>
</tr>
</tbody>
</table>
The issue of affordability is expressed by Natrass & Seekings (2005) that the apartheid system played a significant role on the affordability of certain races, mainly black African due to a lack of access to education and employment. The social organisation of the system was designed to alienate black South Africans from actively participating in the economy. The consequence of racial discrimination is there is a high level of unemployment affecting mainly black South Africans which reduce viable economic opportunities for the race group (Magruder, 2010). Policies under apartheid created barriers of entry to black South Africans across many industries and as a result have reduced their probability of decent income and access to opportunities (Gradi'n, 2012). 27% of respondents mentioned that previously disadvantaged persons do not have the kind of capital required to enter this industry and that is why Oil companies need to commit an Enterprise and Supplier Development Fund to assist those who require funding. They believe there are other requirements and competencies either than funding for operating a fuel retail site however they believe those can be acquired, access to funding is the real pass to entry.

**Legacy of Goodwill**

Only 10% of the respondents was not entirely familiar with the concept of goodwill. In general, most respondents defined goodwill as the perceived value of a business generated over a period of time. 19% in the 90% who were familiar with the concept believed that goodwill is generated by a brands reputation, legacy and processes. Whereas 71% believed goodwill is an intangible asset, it is the value derived on your business operations. The legacy of goodwill has become contentious as historically the sale of a retail fuel station was concluded between a willing buyer and a willing seller, the oil company did not facilitate nor influence the commercial sale of a business. As mentioned by one of the
respondents “Oil companies must develop a formula to work out goodwill to regulate the practice and curb sites from being priced way out of market making them unaffordable”. The sensitivity of this view is in an industry where there is no regulation, players are free to price as they please thus creating barriers of entry due to lack of affordability. Goodwill or the up-front investment are some of the structural barriers that exist depending on how the industry market is structured however, a laissez-faire market is susceptible to manipulation by dominant players to influence the market to be less attractive for new entrants (Carlton, 2005). As a result, 81% of the respondents believe the Oil companies should facilitate the process of selling by developing a formula that will provide a fair value the business operations.

**Impact of Policy on Transformation**

All of the respondents agree the retail fuels industry is not transformed, there are not enough black entrepreneurs representing the demographic of the country. Gender representation is skewed towards males and as a result the industry is perceived as not pro absorbing and supporting black females to participate. One respondent highlighted no presence of youth in the industry either than those of the white population due to decades of generational access. The respondents also acknowledge that policies have been drafted however, some respondents express the implementation thereof has been poor which is the reason why meaningful transformation to date has not been realised. They go on to state that black entrepreneurs in the industry are running medium to low pumping sites which don’t generate much profit and capital is a barrier in affording high pumping sites. To support this view, the mandate of the Broad-Based Economic Empowerment was not only to give fair opportunity to historically disadvantaged South Africans but as stated by Rowland (1996) the objective was to include those who were excluded from economic participation across all sectors to encourage wealth distribution through a fair process that will ensure the industry achieves balance in the share of activities across all races.

In a report published by the DOE (2012), graph 3 below shows a snapshot of both Company-owned and Dealer-owned profiles of ownership based on a national
assessment across various oil companies. Most respondents agreed that the Petroleum Liquid Fuels Charter applied a narrow focus on ownership of the legal entity and management of control, neglecting other key elements of the charter such as Retailing, Wholesaling and access to infrastructure to mention a few. As a result, the ownership status depicted in graph 3 shows an average of 85% ownership by the white population which is a contrasting view to the 9% economically active population for the white population and 73.5% of the black population (Quarterly Labour Force Survey, 2018). This view is supported by Thabo Mbeki’s theory of South Africa being a country divided into two racially organised nations, those who have access to economic opportunities and infrastructure and those who are poverty stricken that each day bears a struggle of subsistence diminishing the chances of becoming active participants of the economy (Natrass & Seekings, 2001).

Graph: 5

![Pie charts showing ownership by race and volume](image)

*Department of Energy, 2012*

Land access for black South Africans continues to be a challenge, 27% of the respondents who play a pivotal role in the industry express the only means of meaningful transformation that can be achieved is through Company-owned sites as the Oil companies have full control of whom they appoint to operate the business operations. With the current legislation, the DOE cannot impose transformation on sites that are privately owned. As a result, very few black South Africans own sites which were erected on their own land. This is supported by statistics provided by DOE on the Dealer-owned sites based on the issued site
and retail licenses where white South Africans own 78% of the business and land. The respondents suggest a review of the legislation which will see the entire industry transformed and not just some parts of it. Roux (2002) affirms that this process requires the involvement of government and its key stakeholders to obliterate existing policies that do not align with the vision and support the constitution of the country.

**Conclusion**

Consideration of an integrated approach is required to in order to achieve meaningful transformation. It is imperative that key stakeholders work together and align their vision, objectives and implementation strategies to ensure that they drive meaningful, transparent and responsible transformation within the retail fuels industry.
CONCLUSION & RECOMMENDATIONS

To conclude, the paper will summarise the findings by means of illustrating similarities or differences to the literature provided.

Findings from the interviews that were conducted on this research remain consistent with the importance of driving meaningful economic transformation within the retail fuels industry. Given the historical context of South Africa, all of the respondents' views expressed need for government to intervene in reviewing industry policies and rectifying legacy structurers that continue to pose as a barrier to entry particularly for black South Africans.

As in the case of Malaysia, effective policy implementation requires a clear and targeted approach of intention. Implementing initiatives of eradicating poverty through the creation of employment and entrepreneurship opportunities to improve income levels to ensure households function above the poverty line. The removal of legacy barriers and creating channels of including previously marginalised persons is the beginning of creating stability and sustainability to drive economic progression (Ratuva, 2013).

The importance of driving meaningful transformation through private public partnership and dismantling of historical barriers to entry is therefore established and supported both by the literature review and the findings of the research.

There was no indication of the benefit to the industry once transformation has been achieved, this was identified as the major difference. Even though findings from Malaysia's NEP policy implementation of economic inclusivity of the previously disadvantaged persons indicate positive a change in their socio-economic status where poverty reduced significantly, and the ruling government was instrumental in achieving wealth distribution amongst the Bumiputera. A link couldn’t be established that the retail fuels industry performance will improve once transformation is achieved.
Therefore, this research is inconclusive whether the industry will benefit from transforming ownership of retail fuels to align with the country’s EAP statistics despite the motivation provided by some respondent’s that mentorship is fundamental in empowering those who don’t have the industry knowledge

Possible limitations of the study

The research was conducted within the petroleum industry only, therefore the analysis may not be comparable to other industries. The researcher was known by a few of the interviewees and as a result this may have influenced their views and input in an attempt of achieving a desired outcome.

The sample of 12 participants across 4 oil companies was not sufficient to generalise however, the sample is deemed sufficient for academic requirements.

All findings were assessed within a South African context at the period the data was gathered.

Considerations for further research

Further research can be considered on developing a valuation methodology that will regulate the sale and goodwill of service stations to drive transformation. Sentiments were shared that valuations of businesses need to be regulated to ensure a fair methodical assessment is conducted if transformation is to be achieved.

Further to this, another area of research could be to review the regime of evergreen retail licenses to incorporate a transformation plan as a condition of renewal or issuing of new licenses. Some existing franchisees have been operating sites for over 20 years, each year a license fee is paid for the renewal
of the license. There is an opportunity to drive transformation through proof of ownership as a condition of renewal.

Lastly, is the impact of extended lease agreement period for historically disadvantaged persons. This observation arises from the inputs that most oil companies have a standard 5-year lease agreement with no obligation of renewal. The lack of access to capital and the period it takes to repay for black South Africans may require Oil companies to review their lease agreement period for entrepreneurs to firstly repay the full loan facility and also generate some profit.
REFERENCES


Ernst & Young. (2012). Broad-Based Black Economic Empowerment.


