Chapter 20
Relationship Establishment in SCM in a Market with Enforcement and Regulation Challenges:
Case of Tanzania

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ABSTRACT

In absence of effective state institutions, informal and private sector operations tend to govern the market. This problem is evident in the petroleum industry in Tanzania. However, little is known about how players in petroleum industry operate in those business environments. The purpose of this chapter is to explore establishment of a relationship between supplier-logistic firms in a post planned economy. The study employed case study interview with two petroleum products distributors in Tanzania to achieve its objective. Data were analyzed by thematic analytical techniques. Three major findings regarding buyer-suppliers relationships in developing economies are presented: actors do not prefer to enforce contract that they sign, discretional relationships exist in petroleum business among actors and 'undugunization' is the strongest criteria in selection of actors. Study implies that for a supplier-logistic relationship to exist government has a great role to play in enforcement of laws.

INTRODUCTION

Since 2000 when the petroleum business was liberalized in Tanzania, competition has increased upstream and downstream (Ernst & Young, 2013). It is estimated that there are 60 petroleum distributing companies and 1,074 retailing filling stations in the country. Most retailing filling stations are independently owned. This fact reduces the ability of distributors to dictate petroleum business in the country. Demand

for total fuel consumption increased in Tanzania for 10 per cent from 2.6 billion litres in 2013 to 2.9 in 2014 (The Guardian, 2014). On the other hand, downstream petroleum and related product business became more competitive by more filling stations to be free to buy from any distributors. Which mean distributors have to improve their services to maintain and attract new customers (Ernst & Young, 2013).

Previous studies of supplier-retailer relationship in Africa focused on satisfaction of channel members (Bonsu & Sigue, 2012), the effects of conflicts on supplier-retailer relationship in brewery industry in Cameroon (Biboum & Sigue, 2014), the lack of trust and its effects on supplier-retailer relationship in Uganda (Ahimbisibwe, 2014). Furthermore, these studies employed quantitative analytical techniques. With the emergence of the private sector in Africa, it is very important to understand how distributors operate in the fragile yet growing business environment on the continent. Kuada (2008) studied the effects of power on establishment of the relationship in Ghana between local and foreign companies. He found that local companies, due to lack of power, have no chance to influence on the clauses of contracts which results in greater potential losses to them. Another study by Boampong (2009) examined how Ghana's exporters operate in market imperfections. The current study is on local actors and how they establish relationship.

Deshpande (1983) argues that for new phenomena qualitative measures are encouraged in order to understand various dimensions that prevail in business. Because this is a new phenomenon in most of African countries, and in particular Tanzania, the use of qualitative method is very appropriate to understand how actors select other players. In Tanzania studies on the fuel value chain focused on competition and price margin (Ernst & Young, 2013). Another study identified that native entrepreneurs in Tanzania were not trustworthy and committed to contracts (Stein, 2004). However, this study focused on the role of networks and business success.

Given the lucrative nature of the industry and the opportunities for cheating, it is very important to investigate how actors in value chain operate in this kind of environment in fuel sector. Furthermore, most of these studies were commissioned jobs by government agencies for instance Ernst and Young (2013) which reduce credibility of the influence of the third party on the reports. Despite the importance of the petroleum sector in the Tanzania's economy, most of previous value chain studies conducted in the country focused on agriculture commodities supply chain, neglecting the petroleum industry. Additionally, existing studies heavily relied on Gereffi et al's (2005) governance perspective supply chain. This chapter intends to fill that gap by examining the petroleum sector by using relational perspective of Supply Chain Management (SCM) as proposed by Dyer and Singh (1998). The marketing relationship with perspectives of distributors is explored. In particular, this chapter intends to answer the following questions:

- How actors establish relationships in petroleum retailing industry in Tanzania?
- What criteria do they use to choose a logistic firm?
- How long do these relationships last?

Since the emergence of the private sector in mid-1985 in Tanzania, private firms have been prominent for importing and retailing of petroleum products. Some companies acted as suppliers with retailing filling stations and others concentrated on importations as suppliers alone. The distribution of petroleum products involves partnerships between retailing firms and logistic companies.

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