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## RESEARCH ARTICLE

# OPPORTUNITIES AND PROSPECTS OF DOING BUSINESS IN AFRICA; A CASE OF OIL COMPANIES

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### Abstract

The African continent with its vast natural resources and developing economy has attracted several Western and Eastern MNEs to make investments in different sectors. This paper discusses the opportunities, prospects and challenges African economies pose to Western and Eastern MNEs and how these firms handle the challenges. The challenges include supply chain logistics, political/regulatory environment, human resourcing, obtaining market information and socio/cultural issues. A case of Oil Companies used to identify these challenges with their activities in Sub-Saharan Africa. It is observed that the political environment and logistical challenges significantly affect the business performance efforts of oil companies in the sub-Saharan region. Some approaches to address these challenges including actively promoting the awareness of diversity and importance of inclusion of the various cultures in the organization, and establishing proper employee development programs are discussed.

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## INTRODUCTION

Several challenges faced by multinationals in Sub-Sahara Africa market have been identified in previous studies (Kirema, 2013). These challenges include cultural conflicts, supply logistics, poor road network and corruption; bureaucratic registration process, harsh trade tariffs and custom duties; varying regulations across different economic blocks, human resourcing. Multinational companies (MNCs) are enterprises that engage in foreign direct investments (FDIs) and own, or in some ways, control value added holdings in more than one country (Dunning 2008). Some multinational companies have made attempts to address this challenges through understanding the culture of the natives; resilience and patience in handling issues concerning the market; employment of locals and reviewing payment packages to retain productive employees as well as appealing to governments to improve infrastructure.

According to a report by the Initiative for Global Development and Dalberg Global Development Advisors (2010) MNCs can be a powerful engine for development in Sub-Saharan Africa. By engaging with local communities in the countries where they do business, they can share knowledge, deepen workers' skills and professionalize suppliers. In the long term the MNCs promote employment and raise living standards in a sustainable way. It has also been pointed out that Sub-Saharan MNCs are defined as companies that are homegrown and solidly in the private sector, in the sense that their headquarters are in Sub-Saharan Africa and the state owns at most a minority stake.

The diverse physical features of sub-Saharan Africa present opportunities and constraints for market operations and economic development. Sub-Saharan Africa is endowed with a wealth of physical and biological natural resources which have sustained the region's growing population and helped fuel development (Lelo and Makenzi, 2000). The region has large deserts (e.g., the Kalahari covers 260x103 km<sup>2</sup>), high mountains (e.g., Mount Kilimanjaro at 5895 m), large rain forests and rich mineral deposits (bauxite, cobalt diamond, phosphate rock, platinum-group metals,

vermiculite and zirconium) (Yager et al., 2004; UNEP, 2006). Nevertheless, this natural wealth is unevenly distributed, largely unexploited and has sometimes been a source of conflict. Some of the issues relating to land in SSA are land degradation and desertification, as well as inappropriate and inequitable land-tenure systems. Sub-Saharan Africa has the world's fastest growing populations, estimated at 2.7% a year, compared to 2% and 2.2% a year in Asia and Latin America respectively. Sub-Saharan Africa is a region that is often divided for different types of social, economic, cultural, political and historical characteristics (IAASTD, 2009).

The changes in Sub-Saharan Africa's political and economic environment over the last few decades have set the stage for MNCs' growth, with democratization and economic integration making the biggest impact. The spread of democracy is gradually making economic systems more meritocratic, opening up entrepreneurial opportunities and fostering a new middle class. Meanwhile, economic integration – though slow in some areas – is eliminating barriers to cross-border commerce. The market presence of Chinese MNCs on the global stage is changing the landscape of international business and Politics (Alden & Devis, 2006). Western MNCs once dominated the global business are now being challenged by a host of emerging country corporations which are highly competitive and supported by the states. A typical Chinese MNC has a business model heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries (Alden & Devis 2006).

This paper discusses the role of environmental factors, structural and organizational factors in determining the activities of MNCs. These factors ultimately impact on the outcomes of the firm in terms of profitability and economic development of the host countries. It also presents opportunities, prospects and challenges for doing business in Africa with a case of Tullow Oil Company explorations. We provide a new framework for analysis of MNCs environmental influence, operations and impact base on existing contributions and Dunning's eclectic paradigm.

### **Theoretical Perspectives**

Literature on the theory of the firm explains that the firm holds tangible or intangible semi-fixed assets and skills which are manipulated in order to maximize profit. The top managers' perceptions of the market structure and the firm's strengths and weaknesses jointly determine their choice of corporate strategy and organizational structure (Caves, 1980; Child, 1972; Cyert, I. and Marchj A. 1963). Therefore the development of long-run plan for a company's profit maximization and internal allocation of tasks, decision rules, and procedures for appraisal and reward are driven by the selected long term firm mission, vision and strategy. Both corporate strategy and organizational structure influence the economic performance of the firm and the market in which it operates and sells its products.

The MNCs market their products to almost all countries on the world and hence practice global marketing (Armstrong & Kotler, 2011). Zou and Cavusgil (2002) proposed a broad conceptualization of global marketing strategy (GMS Model) that incorporates all three dominant perspectives; standardization of marketing, configuration and coordination of value-chain activities, and integration of competitive moves. It is evident that the oil companies in SSA have standardized products, and well co-ordinated value chain activities for processing and distribution. MNCs also enter into mergers and acquisitions with other companies to integrate their competitive activities. It is also argued that a firm's global marketing strategy is positively influenced by external globalizing conditions, a firm's global orientation and the firm's international experience.

The GMS Model essentially presents a 'fit' theory, which argues that it is the fit of an MNCs global marketing strategy to its external industry environment and internal organizational characteristics that determines the MNCs performance in the global market (Zou and Cavusgil 2002). Strategic choice is a general process of decision making. The major types of strategic decisions committing the firm to multimarket activities are through diversification, vertical integration, geographic market expansion and multi-regional or multinational production (Caves, 1980).

### **Environmental Challenges Facing MNCs**

MNCs are facing multiple challenges in their host countries including country risk, location uncertainty, demand uncertainty and intensity of competition as they enter into foreign markets (Kim and Hwang, 1991). These are the global strategic variables that have been well-established and together with transaction-specific variables affect MNCs in their markets. Transaction cost theory or internalization theory stresses the importance of the firm-specific

advantages and tacit nature of know-how MNCs enjoy relative to host country enterprises. Kim & Hwang (1991) developed an 'Eclectic Framework of the Entry Mode Choice'.

The location dimension, institutional approach, and corruption have emerged as a key variable associated to the entry mode choices of MNCs. Teixeira and Grande (2012) argue that in presence of markets with high levels of corruption, MNCs prefer low equity modes of entry in Africa with joint-ventures with local partners or non-equity (namely exports and contracting) while with cultural proximity MNCs may enter via wholly-owned subsidiaries.

Many scholars seem to acknowledge that policy changes and government intervention constitute the most important class of political risk (Henisz, 2000; Jensen, 2006; O'Sullivan, 2005). The most well-known forms of government intervention have been expropriations and nationalizations. There have been instances of outright takings of MNC property (Büthe & Milner, 2008) and breaching contracts or demanding that they be renegotiated; by increasing corporate taxes or royalties; by imposing bans or taxes on trade, production, or investment or by implementing rigid price controls on specific industries. The instances relating to war, terrorism, and social unrest as well as shipping traffic in the waters outside Somalia (Warren, 2011). There have also been other acts committed by non-governmental actors like activists and domestic businesses. This includes threat of activism from non-governmental organizations (NGOs), consumers, shareholders, local communities, workers and labor unions, and the media (Skippari & Pajunen, 2010; Vachani, Doh, & Teegeen 2009).

### A CASE OF TULLOW COMPANY

Tullow Oil plc is a multinational oil and gas exploration company founded in Tullow, Ireland with its headquarters in London, United Kingdom. Tullow has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. It had a market capitalization of approximately £11.1 billion as of 3 April 2013, in the top 40 of the largest members of the FTSE All Share Index on the London Stock Exchange. It has secondary listings on the Ghana Stock Exchange and Irish Stock Exchange, irrespective of the great performance experienced by Tullow it faces several challenges (Anon, 2010). Tullow's main production comes from six countries in Africa as well as the Southern North Sea and Asia. Ghana's offshore Jubilee oil field which was discovered in 2007 and started production in December 2010 is Tullow's largest discovery.

The environmental issues for Tullow in Africa include:

Country Risk: Tullow oil companies seeking to develop East Africa's resources must align their commercial expectations with the political realities in their host countries. The key to success, for governments and investors alike, will be to align the commercial expectations of the IOCs with the political imperatives of host states.

Location uncertainty: The domestic political, financial, economic, and environmental pressures that the host government faces will drive its external behavior toward International Oil Companies (IOCs). Thus, the key to commercial success for investors in these frontier areas is IOCs' ability to anticipate how stakeholder demands will evolve and how these changes will shape the investment environment.

Demand uncertainty: Developing economies in Africa present unique challenges for companies precisely because they lack the crucial intermediary institutions such as credit card systems, market regulation and comprehensive market research that facilitate the smooth functioning of markets. Tullow Company has invested massively in learning the diversities in culture among other factors that affect buyer patterns across continents.

Competitive Intensity: Many international companies are beginning to knot their deals with the continent. In 2010, an Italian gas and oil giant ENI announced it has signed a cooperation accord with its Chinese peer PetroChina, covering China and international prospects in Africa. Tullow Company often establishes relationships with distributors located in the countries whose markets they are seeking to enter.

This paper proposes a study designed to permit a deeper exploration into the issues of major concern and provide an in depth understanding of how the environmental contexts in which MNCs operate inform the way they function (Edwards et al., 2007). Based on theoretical perspectives presented here views from the professional experiences of managers collected using interviews and documentary evidence would analyzed using structural equation modeling (SEM) then be used to draw conclusions through inductive and deductive approaches (Mayring, 2003). Figure 1 presents a Conceptual framework for such a study. This framework can be tested using a sample of Oil Companies operating in Africa.

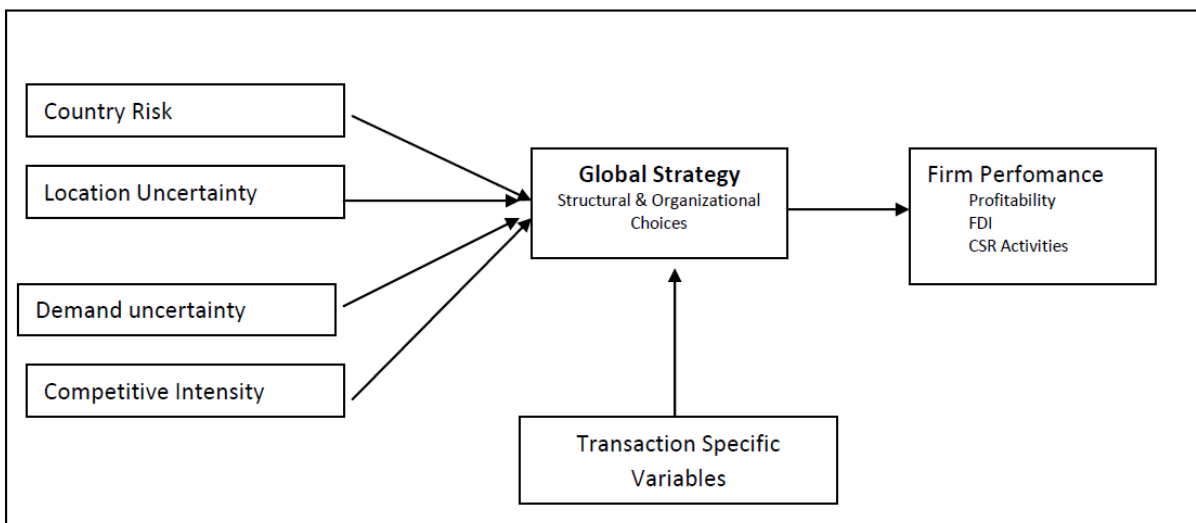
The actions of MNCs firms in turn shape the institutions and competitive environments in the host countries where they operate. Foreign multinational companies deal with institutional voids in African economies by identifying and exploiting opportunities to build businesses by filling in institutional gaps. MNCs are mostly committed to ensuring

that their success and providing long-term benefits to local people and economies where they operate. MNC design their structure and operations to exploit available opportunities in line with the environmental factors. This includes the decisions on human resources and supplies. They seek to manage their business in a responsible way to maximize sustainable development opportunities for host nations. Being responsible operators they play their part in environmental stewardship and a positive social contribution in host countries.

## Conclusion

This paper proposes a new framework (Figure 1) for analyzing the impact of the environment on global strategy and firm performance. The environmental factors determine the company's global strategy in terms of structural and organizational choices. The choice of entry strategies are influenced by firm resources, both specific advantages and tacit know-how. A case study design would be adopted for such studies to permit the researcher a deeper exploration into the issues of major concern and further provided an in depth understanding of how the institutional contexts in which MNCs operate inform the way they function (Edwards et al., 2007). The theory of the firm and other theoretical perspectives explain how the tacit resources of the firm influence strategic choices. It is the outcome of a chosen strategy that ultimately determines the profitability of the firm and continued foreign investments in the host countries. MNCs also utilize their earnings to promote local developments through corporate social responsibility programs.

Figure 1: Framework of MNCs Environment, Strategy and Performance



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