Managing the subsidiary within the rules of the head office – a case for the oil industry in the SADC Region

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I certify that this report is my own work and that all references used are accurately reported.

Sikhuthali Nyangintsimbi

"The diversity of Africa is almost always understated, to the point that when Africa is discussed it is as if it is one homogenous country. The fact that the continent is over three times the size of the United States, with its population speaking thousands of different languages, living in countries with drastically different climates and cultures, and comprised of peoples with quite varied stories, is rarely presented"- Beckett and Sudarkasa (2000).

"We look at Africa as the last emerging market… People who invested in Japan after World War 2, when it was in ruins were viewed as radical but they made a lot of money. That's the same argument we're making with Africa today. " Justine Beckett 1996,

"***The darkest thing about Africa has always been our ignorance of it***" - George Kimble

Abstract

Most international oil companies have historically used South Africa as their regional headquarters from which to drive their strategies within the South African Developing Community (SADC) region. The SADC based companies or subsidiaries view South Africa as a head office of the international oil company. Naturally, the effectiveness of these strategies depends on whether they are aligned with realities of the SADC market. The researcher assesses this question using Yadong Luo's framework, viz. the determinants of local responsiveness. The role of these factors within the oil industry in SADC is assessed, and the local responsiveness of international oil companies in relation to the local oil companies (LOC's) is reviewed for adequacy.

Industrial factors, particularly competition and demand heterogeneity, undoubtedly, are the dominant factors. And this applies equally in both the deregulated and regulated markets, respectively. Environmental factors have the second highest impactful, specifically environmental complexity.

The conclusion is that international oil companies have some lessons to learn from local oil companies in terms of head office making the rules for the subsidiary to execute and vice versa. Similarly, host governments, as key players in creating an investor friendly environment have some lessons to learn from this research.

Key Words

Local responsiveness; Head office; Local oil companies; International oil companies; SADC region; Competitive advantage; Subsidiary; Strategy execution.

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Illustrations

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Abbreviations

- Amepetrol Mozambican Association of Fuel Companies
- Bbl Barrels per Day
- B2B Business to Business
- Calref Caltex Refinery
- CIF Cost, Insurance, & Freight
- CR Credit Risk
- CRM Credit Risk Management
- EM Emerging Market
- Enref Engen Refinery
- ERB Energy Regulatory Board
- FOB Freight on Board
- GEF Global Environment Facility
- GI Global Integration
- HSSE Health Safety and Security Environment
- IDA International Development Association
- Imopetro Importadora Moçambicana de Petroleos
- IOC International Oil Company
- L-R Local Responsiveness
- MNC Multinational Company
- MNE Multinational Enterprise
- Noczim National Oil Company of Zimbabwe
- OECD Organisation for Economic Cooperation and Development
- OMC Oil Marketing Company
- OPEC Organisation of the Petroleum Exporting Countries
- PIL Petroleum Importers Limited

- ROI Return of Investment

- RSA Republic of South Africa
- SADC Southern African Development Community
- SAPIA South African Petroleum Industry Association
- Sapref South African Petroleum Refinery
- TPDC Tanzanian Petroleum Development Corporation
- Unctad United Nations Conference on Trade and Development

Glossary of Terms

1. **Adulteration**

   The unlawful mixing of diesel with illuminating kerosene (paraffin) with the aim of increasing diesel stock levels so as to generate more sales volume and revenues.

2. **Alternative Profit Opportunities (APO)**

   This refers to expanding the product range of standard petroleum products to non-traditional offers such as mobile phones. This is aimed at improving revenue and boosting profitability in a fiercely competitive environment where margins are low and growth is saturating.

3. **Amepetrol**

   This is a forum in Mozambique that represents the petroleum industry especially in influencing government policies. The full name is Mozambican Association of Petroleum Companies.

4. **Barrels**

   This is a standard unit of measurement within the oil industry. A single barrel is made up of 159 litres.

5. **Board Papers**

   The pack of documents that is compiled and used as a pre-read in preparing for each meeting of the Board of Directors. This pack usually includes documents such as minutes of the previous meetings, business plans to be discussed for review and approval, both internal and external auditors reports.

6. Company

This has been used as a generic terms that includes all forms of organisations such as a close corporation, partnership, joint venture, as well as both a private or public company.

7. Component Localisation

This refers to the requirement that foreign investors use local suppliers rather than importing all the required equipment of products. It is aimed at discouraging the importation of goods and services that could be procured locally. For instance forecourt equipment as well staff uniforms are often procured from South Africa rather than from the local suppliers.

It is often a stipulation made by the host government in an effort to boost local suppliers and safeguard employment opportunities for its citizens.

8. Country Manager

This refers to the Managing Director of the subsidiary of an international oil company that operates in one of the fellow African countries within SADC. It is sometimes referred to as Head of the local business unit. The position overseas all aspects of the business activities or functions, and is accountable to the head office.

9. Cultural Distance

This refers to the extent to which the norms, values and beliefs of one culture differ from those of another one. In the context of international business there is an inverse correlation between local responsiveness of a company's strategies and the cultural distance from its target market (SADC country in this case). That is, the success of strategy implementation is inversely related to the cultural distance.

10. Dealer Margin

This refers to the profit that is earned by the dealers who run the retail service stations. This is part of the cost build up of the price that is paid by the end customer or motorist.

11. Direct Bridging

This refers to a situation where product is delivered directly to the end customer. For instance, when received at the port it does not first get stored at the oil company's depot but directly on the final consumer's premises.

12. Dumping

When product that is supposedly destined for another country is illegally turned back into the country (i.e. it remains in-country). Perpetrators of this crime would do so in collusion with border gate control officials. Such product is duty free and selling it within the country attracts abnormal profits.

13. Forecourt

This is refers to the section of the retail service station on which the fuel pumps are installed and vehicles drive into for filling up their fuel tanks.

14. Gantry

This is the area at the depot or terminal where the trucks or rail tank-cars load and/or off-load product from/into the storage facilities. In the case of rail it is also referred to as siding.

15. Global Environment Facility (GEF)

This is an organisation that provides grants or funding to international institutions, non-governmental organisations, and private sector to address various global challenges.

16. Head Office

This refers to the South African based office, which is where the subsidiary's country manager would report to.

17. Hosting (Depot)

This refers to a situation where an oil company that own a depot allows its competitor(s) to store their own product within its depot premises. The host, viz. depot owning company, is therefore entitled to charge storage and handling fees from the tenant competitor. This practice is another way of seeking economies of scale and generating additional revenue for the hosting company.

18. International Development Association (IDA)

This is a body that forms part of the World Bank and facilitates the assistance of poor countries. In order to carry out this mission, IDA offers interest-free credit facilities and grants for programmes that are aimed at boosting economic growth, reducing inequalities, and improving people's living conditions.

19. Imopetro

Importadora Mocambicana de Petroeos (Imopetro) is a private company that was established in 1998 and took over the oil importing function of the Mozambique state-owned PETROMOC.

20. Intercompany Charges

For purposes of this research the term will be used interchangeably with management fees. These refer to costs that are incurred by the head office in carrying out work relating to the subsidiary. For instance, this includes equipment that is imported on behalf of the subsidiary, the business trips to the subsidiary, and IT related services.

21. Local Market

This refers to the SADC country in which the subsidiary of an international oil company operates. It consists of the five countries sampled for the research, viz. Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe.

22. Local Oil Company

For purposes of this study, the term encompasses three forms of companies, viz. one that operates in one country market only; one that operates in more than one country within SADC; as well as an independent operator who may be focusing on a small customer segment within the local market.

23. Oil Marketing Company

This encompasses both a local oil company as well as an international oil company. Instead of identifying them according to their geographic spread the term oil marketing company is used.

24. Petroleum Importers Limited

This is private company that is owned by the oil companies in Malawi and managed through a body of directors who represent the respective oil companies. It serves to import about 80% of Malawi's fuel requirements.

25. SADC

The full name is Southern African Development Community, which is composed of 15 countries. These are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. The head quarters of SADC are in Gaborone, Botswana.

26. Subsidiary

This refers to the local business that operates at the SADC market where there are local oil companies and the business environment is markedly different from that of South Africa (head office).

27. Tank-farm

This refers to an area in which product storage tanks have been built; each product would have its dedicated tankage.

28. Throughput

These are volumes per month that are sold through either a terminal's storage facility or through retail service station.

CHAPTER 1

Introduction

1.1 Introduction

The very concept of multinational enterprises/companies implies that there is a head office and the subsidiary office. Both these offices should be working towards the same goal, with a reciprocal exchange of experiences and ideas on how best to achieve the company's goals and objectives.

However, more often than not there are tensions between the two, with the head office thinking that the subsidiary is clear on the objectives and how to implement them, whilst the subsidiary takes a view that the head office tends to impose without a full understanding of the realities in the local market. This study is in the area of international business, with particular focus on the operational level of the business, and is within the oil industry.

This chapter therefore provides the context of this research project. It covers aspects such as the**:**

- Various stakeholders who could benefit from the study,
- Framework used to guide the research;
- Research objective, question and problems; and
- Constraints and limitations of the study.

It will be noted that the framework by Luo (2001) has been applied in the context of both the SADC region as well as to the oil industry. According to his framework there are four factors that determine local responsiveness within the rules set by head office, as listed below together with their component elements**:**

- <u>Environmental Factors</u>**:** Environmental complexity, business practice specificity, and cultural distance;

- Industrial Factors**:** Competition intensity, demand heterogeneity, and component localisation;
- Organisational Factors**:** Previous experience, host government ties, business networks, and market orientation;
- Control Factors**:** Control flexibility, subsidiary size, and entry mode.

This framework has proven to be quite valuable in keeping the literature review focused, as well as during the fieldwork stage whereby there was a vast amount of data to be gathered.

1.2 Audience

Results that come out of this analysis will be available for use in the public domain. But they will especially be useful to**:**

- **Academics**

  The academics constantly keep up with the developments in the market and this includes reading extensively. Those academics that are interested in international business and globalization will find this study enriching to their research literature. Consequently, they will be able to equip their students and business community with insightful trends in the field of international business. In turn some of these students may take up employment in the IOC's head office and/or subsidiaries, where they can influence the manner in which these two interact in conducting business. That is, they would support improvement efforts towards local responsiveness of the head office.

- **Customers of the oil industry**

  Despite the growing consciousness about nationalism, some customers still have more faith in MNC's than the indigenous ones. However, they are not always willing to pay the premium. These customers will therefore be better equipped to make informed decisions in this regard.

  Similarly the standardised product specifications as offered by the international oil companies discourage local market customers. Such specifications apply particularly when it comes to lubricants as well as grease products.

- **Government departments**

  This will impact directly on those departments and regulatory bodies that deal directly with the oil industry. This study will highlight how their role facilitates and/or impedes the efficient running of business. By responding positively the governments will be incentivizing the IOC's to increase their investments in the local market. And thus this will lead to positive spin-offs that include increased tax revenues, reduction of unemployment rates, and increased social responsibility initiatives.

- **Managers within the IOC's**

  The market conditions in the SADC countries are markedly different when compared to South Africa. This encompasses external factors such as the economic, political and social environment. Since these translate into the behaviours of the staff within the subsidiary there is likely to be a misalignment between the head office and the subsidiary staff respectively. This study will highlight some of these factors, enable these managers to enhance the IOC's local responsiveness, and thus support them to contribute more positively to business growth of the subsidiary.

- **Managers within the LOC**

  The benefits as highlighted for managers within the IOC apply to the LOC managers as well. That is, given that both the IOC as well as LOC managers are working for the same industry there will be a reciprocal benefit to both parties. In addition, the LOC managers will be better able to respond to the local conditions and thus become better equipped to deal with local competitors.

- **Shareholders in the oil industry**

  Market share is one of the fundamental measures of an organisation's sustainability, especially in the oil industry. And there is a positive correlation between market growth and shareholders' return on investment. When insights of this research are studied in context and implemented accordingly the international oil companies will generate higher returns on investment.

1.3 Contextual Setting of the Topic to be Researched

The researcher's interest has been inspired by his experience within the oil industry, which stretches over 15 years, and having traveled across the West, East, and Southern countries within the African continent.

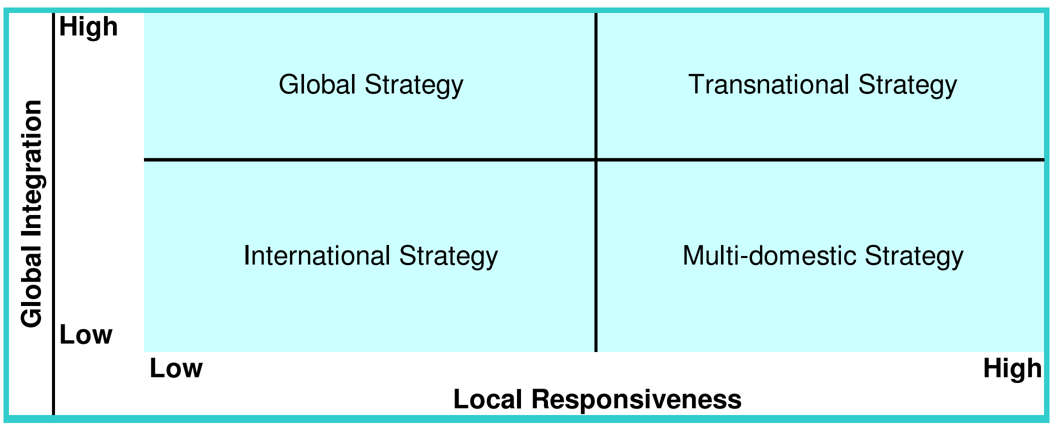
This research is based on the premise that**:**

- Both the head office and its subsidiary have the interests of the company or organisation at heart; and that this is what tends to minimise their natural tensions from getting out of hand;

- The head office, although being the chief custodians of the strategy, does need the subsidiary's hand-on knowledge of the local market dynamics.

- The local oil companies (LOC's) pose a threat to the competitiveness of international oil companies (IOC's), despite the fact that the latter have better resources.

International oil companies (IOC's), like most other multi-national counterparts, face the strategic paradox when operating in foreign markets. That is, they have to thread the fine line between global integration and local responsiveness. The Figure 1.1, which has been adopted form Bartlett and Goshal (1998) illustrates.



Source: Christopher A. Bartlett and Sumantra Goshal, Managing Across Borders: The Transnational Solution, 2nd Edition (Boston: Harvard Business School Press, 1998).

Fig. 1.1

The South African oil industry market is almost saturated, and opportunities for expansion lie northwards in the SADC Regions as well as further deep within the African continent. However, there are several challenges to handle in order to fully exploit these opportunities.

Such challenges are classified into four below, viz. organisational factors, environmental factors, industrial factors, as well as control factors.

These factors are detailed as follows**:**

- **Organisational Factors**

The weak regulatory framework implies that there is a lot of grey areas in the interpretation and implementation of a country's regulations, something that results in some players benefitting whilst others get prejudiced. This is compounded by ambiguous legal systems which then pose a high level of uncertainty to most international oil companies.

It thus curtails the competitiveness, threatens strategy effectiveness, and undermines the prior experience an IOC has in the target African market.
In some countries, e.g. Zambia, the regulatory bodies discourage industry forums for fear that they may lead to formation of a cartel. All of this creates unique challenges in making and executing head office policies.

- **Environmental Factors**

The key deterrent to strategy effectiveness of an IOC is the inadequacy of a country's infrastructure, viz. roads, the pipeline, ports, rail network etc. As a result there are serious constraints from a (product) supply perspective, especially compounded by limited capital investment resources in these target markets. Compounding this challenge is the fact that these countries, being part of the emerging markets, are often not that attractive from a foreign investment point of view.

In addition, the oil companies are reluctant to seriously invest in their organizations, e.g.

Refineries

The limited refinery capacity, compounded by aged technology that makes them to operate far below such limited capacity, leaves importing as a supplementary if not the only source of product for these countries. In this regard there are bodies such as Importadora Moçambicana de Petroleos (Imopetro) in Mozambique, Petroleum Importers Limited (PIL) in Malawi, Tanzania Petroleum Development Corporation (TPDC), and Noczim in Zimbabwe.

Storage & Transport Facilities

Inadequate maintenance of these facilities leads to a HSSE risk, thus staking a company's reputation. This has a ripple effect on other subsidiaries of the IOC given that a mishap in one country is likely to transcend into other countries as well. Unfortunately, this inadequate maintenance is sometimes a result of the spiraling costs resulting from poor road infrastructure. Despite this depressive impact on the subsidiary's profitability the head office still expects the subsidiary to maintain a higher standard and incur these "superfluous" costs.

- **Industrial Factors**

Competition is quite awkward when there are smaller companies that have a higher risk appetite with little reputation at stake. Some of the challenges with these smaller players include the fact that they fall below the regulatory radar screen, conduct business in unconventional means, have a lower fixed cost structure and thus more scope for price-cutting.

Although a regulated environment is supposed to somehow guarantee the margins but in a country such as Mozambique regulatory bodies sometimes force oil companies to operate at negative margins. This is especially so closer to national election period.

- **Control Factors**

The head office of the international oil company tends to micromanage the subsidiaries by ensuring that policies and procedures remain standard across the board. The realities of the market are ignored, e.g. the quick decision taking is critical and LOC's achieve this due to their flat organisational structure. On the other hand, for IOC's the approval process is delayed by the many layers in the hierarchy. This has a negative impact when it comes to, for example**:**

- Purchasing a piece of land that has been identified for development. The actual spending has to be approved even though there is an already agreed upon capital budget;
- Potential customers are lost in that negotiating the rebates or discount cannot be done on the ground; they have to be approved from the head office.

- **Quality of Information**

Lack of quality information is an issue too. For instance there are no reliable sources of customer credit standing; consequently potential customers cannot be assessed against the same yardstick prescribed by head office.

In addition, the lack of quality information deters effective strategy implementation, something that is critical across the value chain.

1.4 Research Problem and Sub-problems

Although IOC's have been operating in the SADC Region for decades there is a perception amongst the satellite business units (i.e. subsidiaries) in the member states that strategies as driven from head office are not always in sink with realities on the ground. That is, the balance between global integration and local responsiveness is not enough, something that leads to the IOC's sometimes losing competitive edge to the LOC's.

And therefore the research problem is how to improve local responsiveness in strategy implementation, and this is researched from the perspective of the IOC operating in SADC. Rules are made by head office to be executed at local level. This implies a response phase which, overtime, becomes the challenge between applying the rules set by head office and ensuring a sustainable business on the local front.

Flowing from this are the following sub-problems**:**

1.4.1 Is the subsidiary's performance enhanced in executing the head office rules?

1.4.2 Is the subsidiary responsive enough to the realities of the local markets in the SADC region?

1.4.3 Does the head office understand the realities of the oil industry in the local markets of the SADC region?

1.5 Research Question

What are the key theoretical and industry drivers that underpin an effective local responsive strategy for the Oil Industry in SADC in managing the local business within the rules set by the head office?

1.6 Research Objectives

The objectives of the research question are:

1. To determine from a literature review the main factors that play a role in managing the local business within the rules set by an international business:
   a. Theory from accredited academic literature; and
   b. Industry learnings from industry publications with specific focus on the oil industry.

2. To validate and enrich these underpinning factors through interviews with Oil Industry stakeholders.

3. From 1 and 2 above to construct the process and dynamics of a local responsive strategy for the Oil Industry in SADC in managing the local business.

1.7 Boundaries of the Research

Period

The 10 year period 1998 through to 2008 will be covered. The decision is premised on the fact that the market dynamics change so rapidly that challenges and opportunities become obsolete as the time horizon extends. This also applies to the literature, as such the literature for this study is mostly no older than 10 years.

Exclusions

The South African Development Community (SADC) is composed of 15 countries, which are shown in Figure 1.2 below. However, for purposes of this research only 5 have been selected, viz. Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe.

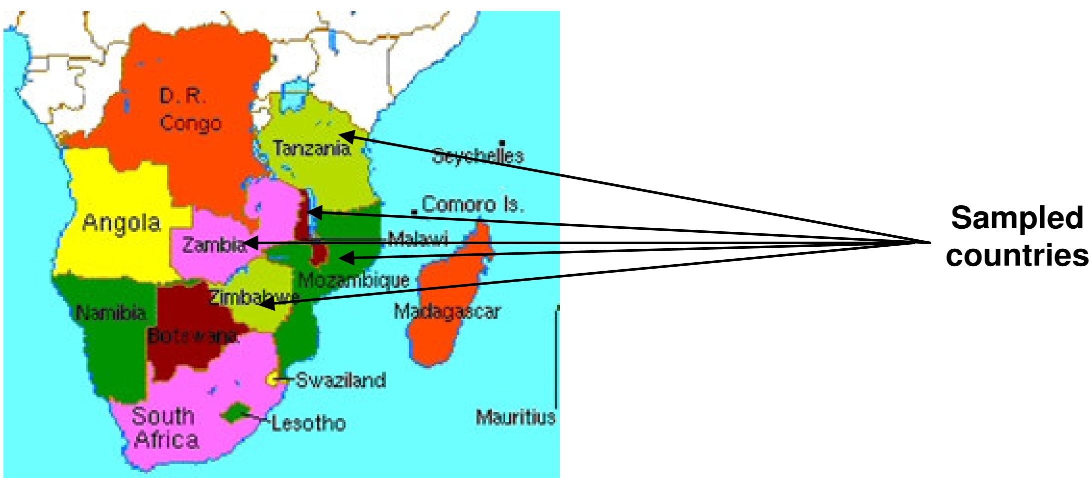


Figure 1.2

The rest have been excluded on the basis of one of the following**:**

- South Africa is the (regional) head office from which strategies are driven. So, as the head office its activities are not covered.

- Botswana and Namibia are both countries that have market trends that are similar to South Africa. So, this leaves relatively limited space for local responsiveness to be assessed. In addition there are no local oil companies operating in these two countries.

The other 7 countries are very small markets; alternatively, not all major international oil companies have a presence in these countries. These countries are Lesotho, Swaziland, Madagascar, Mauritius, and Democratic Republic of Congo. Table 1.1 enlists the countries as well as the overview of crude oil imports per each country that forms part of SADC.

Table 1.1

Petroleum Industry Overview in SADC Region					
Country	Petroleum (' 000 bbl/day) 2008				Crude Oil: 2005
	Production	Consumption	Net Exports	Reserves (million bbl)	Production (' 000 bbl/day)
Angola	1051.2	57.0	994.2	5412.0	39.0
Botswana	0.0	13.0	-13.0	0.0	0.0
Democratic Republic of Congo	21.1	7.6	13.5	187.0	0.0
Lesotho	0.0	2.0	-2.0	0.0	0.0
Madagascar	0.0	12.0	-12.0	0.0	15.0
Malawi*	0.0	6.0	-6.0	0.0	0.0
Mauritius	0.0	22.2	-22.2	0.0	0.0
Mozambique*	0.0	14.1	-14.1	0.0	0.0
Namibia	0.0	19.0	-19.0	0.0	0.0
Sychelles	0.0	6.0	-6.0	0.0	0.0
South Africa	250.8	543.7	-292.9	15.7	489.5
Swaziland	0.0	3.6	-3.6	0.0	0.0
Tanzania*	0.0	27.8	-27.8	0.0	14.9
Zambia*	0.1	16.0	-15.9	0.0	23.8
Zimbabwe*	0.0	18.0	-18.0	0.0	0.0

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

* These are the countries that were sampled for this research study.

- The focus is only on the petroleum product market. Other components of the energy sector will be excluded, viz. coal, natural gas, electricity.

- Only the down-stream activities, viz. refining and marketing, will be reviewed; upstream operations, viz. exploration and production of crude, will not be covered. This approach will bring all sample countries to “equilibrium”.

- The lubricants as well as grease blending plants will also be excluded from this research.

1.8 Possible Constraints

- Lack of quality information within the SADC region, which is the market of focus for this Research. The little that is available will be corroborated and enriched through interviews and survey questionnaires with industry experts.

- Sensitivity of information given that the subjects of testing will be competitors. That is, the oil industry is fiercely contested within the SADC Region. For instance, in Zimbabwe information relating to market share is no longer made public; this seems to be the trend in other countries within SADC.

  But what complicates the matter further is the fact that these IOC’s do operate in especially deregulated markets elsewhere. Now, given that some of the practices and tactics applied in SADC are transferable, any one organisation may be reluctant to disclose information for fear of being outclassed in other parts of the world.
  The letter as per Appendix 2, together with networking, will address this constraint.

- The government sector plays a critical role in interacting with all players in the oil industry. Both the bureaucracy in terms of slow response to requests of any sort, as well as reluctance to release information will also pose a threat to a speedy completion of the research. To mitigate this, proper planning will be implemented so as to provide adequate time for these anticipated delays.

1.9 Key Assumptions

The quality of information on the African continent has always been an area of concern. The researcher will tap on his network built during the 15 years in the oil industry, especially the period 2003-2009 during which there was an even stronger involvement in some the fellow African countries.

It is thus assumed that the response rate to the questionnaires and interview requests will be high enough to ensure credibility of the study.

1.10 Importance of the Study

It is noteworthy that the oil industry – like telecommunications – is particularly one of the sectors that are deemed strategic by government in the various countries – both developed and developing – SADC included. The trend towards establishment and/or revitalisation of national oil companies underscores this point. For instance,

- Petronas (Malaysia)
- PetroSA (South Africa)
- National Oil Company of Zimbabwe – Noczim (Zimbabwe)

- Tanzanian Petroleum Development Company (Tanzania)
- Oil Company of Malawi (Malawi)
- Petróleos de Moçambique – Petromoc (Mozambique)
- Zambian Oil Company – ZNOC (Zambia)

The International Oil Companies (IOC's) are headquartered in South Africa and this is where its key decisions on strategy are formulated. This study seeks to evaluate if their strategies are responsive to the realities in SADC region's respective local markets.

Further,

- In order to have mutually beneficial partnerships the International Oil Companies (IOC's) need to develop better insight into these target markets. That way, they will tailor their strategies to the local needs, without compromising on aspects such as quality, as well as HSSE Standards.

- Foreign investment will be boosted in these target markets, whilst on the other hand the market share, profitability and revenues of the IOC's will improve proportionately in line with how flexible the IOC is.

Results of this study will be of value to the various stakeholders whose respective returns on investment will improve. These include**:**

- Customers who will be better served due to improved reciprocal understanding;

- Staff in, especially, the target satellite business units since their input into strategy will be better valued. Their resultantly improved execution of strategy will be invaluable.

- Government officials who will realise the better profiled corporate citizenry of IOC's; thus diminishing their traditional reputation of being expropriators rather than business partners. In this light, the NEPAD ideals will also be enhanced;

- Local Oil Companies (LOC's), who will be able to enhance their competitiveness through executing the head office strategies in a locally responsive approach;

- International oil companies (IOC's), who will have the necessary insights that empower them to adopt locally responsive policies that support the subsidiary rather than stifle its business operations.

1.11 Chapter Lay-out of the Research Report

Six chapters will constitute this Research Report, and in addition there will be both a Bibliography as well as Appendices. The titles of the respective chapters will be as follows:

- **Chapter 1 – Orientation**

  This chapter provides context of the research project, including the research objectives and sub-problems, importance of the study, delimitations, key assumptions, and constraints.

- **Chapter 2 – Foundation of the Study**

  This chapter provides a descriptive background of the two theories/models around which the research project is based, viz. Bartlett and Ghoshal's Managing Across Borders, as well as Luo's Determinants of Local Responsiveness. It also contains and elaboration of the research strategy applied viz. focus groups as well as conversational interviews.

  Included as well is the aerial view of the challenges the SADC region poses from a business perspective, viz. infrastructure, legislative environment, pricing and profitability.

- **Chapter 3 – Literature Review**

  This chapter covers views and thoughts of various scholars and business leaders on some of the business challenges in emerging markets, which the SADC region can be classified under. It also covers the factors that affect local responsiveness strategies in managing local business under the requirements of international business or companies. Luo's model classifies these factors into four, viz. organisational factors, industrial factors, environmental factors, and control factors.

  The chapter also refers to some seminal literature on challenges that are faced by MNC's in emerging markets, including the competitive edge of local companies.

- **Chapter 4 – Research Methodology**

  This chapter lays out the research methodology that has been applied on this research project. It includes key aspects such as research strategies, methodology, sampling, data collection, and ethical considerations.

- **Chapter 5 – Research Results**

  This chapter contains the outcome of the interviews conducted with the various sampled respondents; responses to each question are analysed and interpreted in the context of this research study. Some of the data is presented in tabular and/or graphical form in an attempt to be more illustrative.

- **Chapter 6 – Conclusions and Recommendations**

  This chapter contains reflections on the key messages that emanate from the research results. Recommendations on how to improve the local responsiveness strategies, with a view of managing the local business of international oil companies in SADC region, are then formulated.

- **References**

  The full list of references used in this research report includes articles, books, research papers (i.e. theses), websites, and industry publications.

- **Annexures**

  There are two Annexures, viz. a measuring instrument, and a covering letter for survey questionnaire. These are used to illustrate the research data contained in this report.

1.12 Conclusion

This chapter served to provide the reader with an overview of this research project, which was aimed at presenting the context of the study, including its challenges and benefits. The research questions together with research problems served as a guide that steered the researcher during the process, viz. through the next chapters that takes us to the end of the research paper.

CHAPTER 2:

Foundation of the Study

Foundation of the Study

2.1 Introduction

The purpose of this chapter is to outline the foundation on which this research is based as well as on how best the local business can be managed within the head office rules. Whilst this issue has been addressed by various scholars, not much has been said about it in the context of the oil industry within SADC.

This chapter further provides some background on the SADC region, and this is done by describing some of the challenges of doing business in this region. It is against these challenges that the interaction of the local business and the head office is being researched. In other words, given such challenges can the head office and its subsidiary work any better.

The theories and models used are also described in detail, and these are Bartlett and Ghoshal's Managing Across Borders (1989) as well as Luo's (2001) Determinants of Local Responsiveness. The reader can then be able to match these theories and models against the business challenges in SADC as described.

An overview of the integrated value chain of the oil industry is illustrated with the aid of a diagram (i.e. Fig. 2.1). Its purpose is to provide basis on which the reader should assimilate the literature review as well as data and information contained in subsequent chapters.

Finally, the chapter then ends with a description of the research strategies used, which is focus groups as well as conversational interviews.

2.2 Scope of the Body of Knowledge

The focus of this research is in the field of strategy execution and how the local business or subsidiary manages its operations within the boundaries of the policies and rules set by head office. The two models as noted above – Bartlett and Goshal's (1989) as well as Luo's (2001) – will be used as tools for evaluating these sampled companies.

2.3 Integrated Value Chain of an Oil Industry

Figure 2.1 below illustrates a typical integrated value chain of an oil industry, i.e. from upstream (i.e. exploration of crude oil) through the down stream (i.e. refining of crude until selling to end customer).

The local oil companies (LOC's) operate only in selected parts of the supply value chain rather than its entirety, viz. from refinery through to the end customer. This naturally is a challenge to the IOC's, as it implies that LOC's have the freedom to choose from and to discard the aspects of the supply value chain that disproportionately add costs. In other words, the LOC's can minimise inefficiencies much better than the IOC's.

However, the international oil companies have the latitude to coordinate the various activities across the value chain and achieve competitive advantage that way. They have more room for economies of scale, particularly if such coordination is done such that these various activities complement rather than compete with one another. The Figure 2.1 below depicts these various stages of the integrated value chain and they are briefly explained so that the reader can better relate to the views expressed by participants.

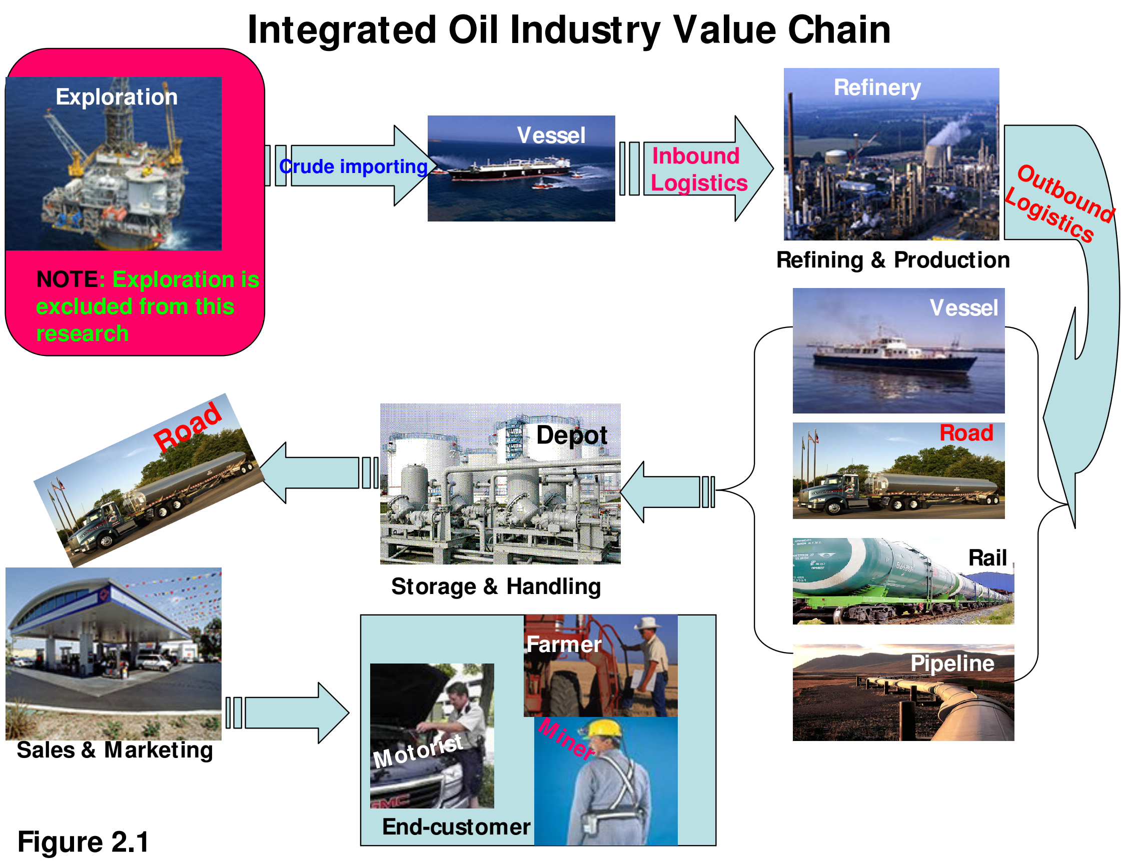


Figure 2.1

For instance, an integrated value chain as per Figure 2.1 would entail that:

- Refining margins are improved via efficient crude sourcing options;
- Marketing margins are safeguarded via the selection of optimal modes of transport for distributing product from the refinery to customers.
- Supply and trading identifies the most cost efficient sources of crude oil, especially assisted by the group head office. For instance, in the UK (Bp), Holland (Shell), and US (Chevron) since those offices have networks across the globe.

- This would also include negotiating more competitive rates with transport contractors, and doing vessel co-loading.

2.4 Business Challenges within SADC

Some insights into what the challenges in the industry are will serve as a basis for evaluating how International Oil Companies (IOC's) respond to the local market environments. Such response naturally defines the relationship or interaction between the head office and the subsidiary; it informs how the subsidiary operates within the policies and rules set by the head office. Ultimately, such interaction will determine the extent to which the subsidiary is locally responsive to the market conditions and, necessarily, whether the subsidiary is a step ahead of the local and/or regional counterparts.

Thus, the comparison will be done which takes into account infrastructure, product pricing, legislative environment, and macro-economic environment. Listed below is the framework within which this comparison will be done.

2.4.1 Infrastructure

Infrastructure is the backbone of a country's socio-economic growth and development. If SADC governments are to play an effective role in creating an attractive environment for private sector investment then a significant amount of investment in infrastructure is required. So far, the commitment has not been matched with implementation in most countries. And thus perpetuating the inefficiencies in the way business is conducted.

The challenge then is whether strong partnerships can be established between government, oil companies, transporters, and customers in order to optimise the supply value chain. If not, do IOC's in particular have a Fit-for-Purpose plan to deal with this challenge? How does this fit in with the policies and rules set by head office in terms of logistics and supply chain requirements?

2.4.2 Refinery

The refineries are often co-owned by the government, an IOC, and/or some other shareholder(s). These respective refineries are all operating below capacity. This is mainly because the owners lack the will to put huge capital investment, including modern technology, into their refineries. In other words, they do not take advantage of the fact that there is a stable increase in demand for petroleum products in the respective SADC markets.

The implications of this inadequate investment in refineries are that**:**

- Security of product supply, i.e. shortage of product, remains a concern. This in turn affects other industries that depend on petroleum products in order to sustain their own operations;

- Unplanned refinery shutdowns become the order of the day. Resultantly, finished product has to be imported from other countries such as South Africa and the Middle East in order to complement local production.

And because of logistical inefficiencies in the sourcing of product the time lag between ordering and delivery in the country's borders creates price differentials. And this negatively impacts the margins of International Oil Companies.

2.4.3 Storage facilities

The challenge is two fold, viz.:

- Storage facilities are insufficient, something that leads to frequent stock shortages compared to market demand. As such the concept of safety-stocks can't be upheld. The inefficiencies in the procurement process make it difficult to receive stock deliveries in time. This is compounded by the steady increase in market demand.

- The limited financial resources lead to inadequate maintenance of tanks, something that then constitutes a strategic risk in the form of health hazard. The organisation's reputation becomes at stake as a result. A critical point to note here is that the subsidiaries are expected to be self-sustaining rather than depending on the head office for capital investments and other forms of expanding the business operations.

2.4.4 Transport

All modes of transport – rail, road, ports, and pipeline – are in a bad state in the SADC region. Transport costs have consistently remained high, to a point of being prohibitive to profitability of the local office or subsidiary. The alternative, rail transport would be a much cheaper mode of transport. But due to its debilitated infrastructure, road transport is the obvious choice. Part of this is due to the corrupt practices of government officials who find themselves in a conflict of interest situation, viz. holding road transport business interests whilst still in office.

Table 2.1

5 Year Trend of Mozambique's Road Conditions ('000 km)							
Rating	**1998**	**1999**	**2000**	**2001**	**2002**	**Perc. (%)**	**Cumm. (%)**
Impassable	2 868	2 540	3 282	2 786	2 362	8.3	-
Bad	9 178	8 418	5 424	4 390	4 241	14.9	23.2
Weak	2 874	2 610	5 332	5 649	5 977	21	44.2
Fair	11 464	10 290	7 422	8 275	8 454	29.7	73.9
Good	6 441	8 068	7 003	7 363	7 429	26.1	100.0
Total	**32 825**	31 926	28 463	28 463	28 463	100	100.0

Source: Adapted from Ministry of Public works in Mozambique

But still, the roads themselves are not in good condition, as depicted in Table 2.1 above, and thus posing a higher risk in terms of health, safety, security and environment (HSSE). Local oil companies, with their lower HSSE standards, take advantage since they have no reputation to preserve like multinationals.

2.4.5 Pricing and Profitability

The Economic Research Working Paper number 93 (December 2007) commissioned by the African Development Bank sought to investigate the Impact of High Oil Prices on African Economies. It underscores the impact of spiralling oil prices on the net-import oil countries in terms of inflation. Unfortunately, all SADC countries, except Democratic Republic of Congo (DRC) and Angola, fall under this category. Refer Table 1.1 for an illustration.

In a deregulated industry the impact is even greater in that it affects both the retail as well as the commercial sector. This latter is dominated by mining, construction and farming industry customers who have an overly strong bargaining power.

That is, they are forever reluctant to enter into supply contracts with the IOC's, since they (customers) want freedom to get product supply on a competitive basis at all times.
In addition, these customers tend not to pledge security against their debt, and increase exposure to the IOC. It is a sector that is characterised by a strong culture of price-rebating as a mechanism for growing the market share by the IOC.

In efforts to mitigate this impact on the end-users and necessarily the oil companies, a regulated price mechanism is often introduced by respective governments. For instance, British Airways despite being a global customer had to pull its direct cargo flights from Lusaka to Europe due to high aviation fuel prices which increased by 60% in one year in Zambia.

2.4.6 Legislative Environment

Legislative practices are often not investor friendly. The customs office is an example, viz.

- It takes too long to clear the truck through the borders and in the process product supply in the local market is delayed and service stations run dry. The risk of losing customers under these circumstances is quite high.

- The challenge of inefficiencies in the clearing of imports is intensified by the outdated systems, some of which are still manual. There is therefore no mechanism for tracking inter alia the turnaround time for processing of imports, volume of declarations at each entry point, and breaches detected.

- There is also the problem of duties having to be paid before any queries a company has may be raised. And even then it takes very long to get refunds when an organisation has proven that this is owed by the customs regulatory body.

Delayed clearances are sometimes blamed on the petroleum companies resulting in unfortunate, discriminate, heavy penalties that discourage foreign investment. This is indicative of an internally focused attitude by the officials concerned given that imports are a major source of revenue from such petroleum products.

Oil smuggling has been another aspect that leads to loss of revenue by the customs department within government.

2.5 Comparative Macro-economic Data

As can be noted from the Table 2.2 below, in terms of economic growth and inflation these countries are doing well and are worthy of foreign direct investment. Of course, Zimbabwe remains an outlier due to its dragging economic meltdown in the last decade or so. The Internet usage is linked to telecommunication industry which has been identified as a key impediment due to its comparatively higher costs.

Table 2.2

Comparable Economic Data												
Country	**GDP Real Growth (%)**		**Inflation**		**Internet Users (per 100)**		**Population (million)**		**Life Expectancy (Years)**		**Services as a % of GDP**	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Malawi	8.6	9.7	8.6	9.7	1.0	2.2	13.9	14.3	48.0	48.0 E	45%	45%
Mozambique	7	6.5	7.4	6.5	0.9	1.6	21.4	21.8	42.0	42.0 E	47%	46%
Tanzania	7.1	7.5	9.0	8.9	1.0	1.2	41.3	42.3	55.0	56.0	Not available	not available
Zambia	6.2	6.0	11.8	10.8	4.9	5.5	12.3	12.3	45.0	46.0	40%	33%
Zimbabwe	N/A*	N/A	N/A*	N/A*	10.9	11.4	12.6	12.5	44.0	45.0	N/A*	N/A*

Source: World Wonk Country Profile Reports

E: Estimated Data as the offical actual data is not yet available

N/A*: Reliable data could not be obtained mainly due to political situation in Zimbabwe.

2.6 Theories and Models to be Used

2.6.1 Bartlett and Ghoshal's Managing Across Borders

According to Bartlett and Ghoshal (1989) when organisations decide to establish foreign subsidiaries they tend to choose from one of four strategies, viz. global, international, multi-domestic, as well as transnational. Ideally highly competitive organisations should be operating in the transnational 'space', whereby they cater for both global as well as multi-domestic strategic imperatives.

The researcher recognizes the fact that the international oil companies would naturally be oriented towards global integration. However, the need for local responsiveness cannot be underestimated.

2.6.2 Yadong Luo's Determinants of Local Responsiveness

This research report is about the local responsiveness of the international oil companies in the SADC region in managing the local business. The topic talks precisely to the framework of Luo (2001), viz. the Determinants of Local Responsiveness. He classifies these into four and expands on each of these, viz.**:**

2.6.2.1 Organisational Factors

First, he asserts that the stronger the ties between the organisation and the host government the more there is a need to be locally responsive. The thinking being that with a deeper understanding between the two parties, the organisation can convey its strategies; and give input on the regulatory policies' impact on the business climate. And the organisation reciprocates through corporate citizenship, investing in programmes that develop the economy and communities across the country, and marketing the country to foreign investors.

Secondly, previous experience also bears a positive correlation with local responsiveness. That is, deeper insights into the country's market dynamics inform best options in making the organisation's strategies more effective; they determine the level of risk appetite; and which products to offer and how much to invest.

Third, business networks that are stronger and across industries enhance the bargaining power of organisations in their engagements with the various stakeholders, viz. activist groups, customer base, regulatory bodies, and policy formulation.

Fourth, market orientation is about whether the organisation's focus is on the local market or rather it produces for exporting. If it exports then there is an inverse correlation with local responsiveness in its local market.

2.6.2.2 Environmental Factors

Each country has its own language, values, beliefs, and preferences, which are collectively known as culture. Cultural distance is therefore the extent to which the culture of – in this context – a SADC market differs from that of the IOC's home country. There is a negative correlation between local responsiveness and cultural distance, which is one of the key components of environmental factors. That is, the less an organisation knows about the target market's language, tastes and preferences the more will its local responsiveness needs to be.

The other two components – environmental complexity and business practice specificity – have a positive relationship with local responsiveness.

2.6.2.3 Industrial Factors

Industrial factors are positively correlated to local responsiveness; they are composed of three elements, viz.

- **Competition intensity**

  This is the most critical element of the industrial factors. How a company responds to such competition determines the effectiveness of its strategy implementation. And to be competitive a company has be ahead in terms of sales volume and/or revenue, innovation, cost efficiency as well as the ability to withstand market turbulences.

- **Component localisation**

  This refers to the extent to which the regulatory bodies call for support of local suppliers by ensuring that the importation of raw materials is minimised. This partly pursues the goal of minimizing unemployment, facilitating the transfer of skills, and building business partnerships in the target country.

- **Demand Heterogeneity**

  This element is about whether the organisation can diversify its product offer, be innovative in terms of product specifications to suit differing customer tastes and preferences. The more diversified the customers' needs the higher is the need for local responsiveness, especially where there is no one customer segment that is big enough to warrant exclusive focus.

2.6.2.4 Control Factors

The extent to which the head office exercises control over the local business unit is at times dependent on the size of the latter, i.e. the more control the less ability to respond to local market dynamics. This includes insufficient delegation of authority, and longer decision-making process.

Similarly, the organisational structure whereby the Board has fewer or no external directors, the strategies taken are likely to be less responsive to local conditions.

2.7 Research Strategies

2.7.1 Focus Groups

Lee (1999) describes focus group thus, “By conducting one or more focus groups, a researcher can collect data on individuals’ opinions, attitudes, and self-reported behaviors. More important, the interactive discussions that take place in focus groups - in which members share and compare their experiences, resulting in potentially powerful social facilitation – can provide researchers with substantial insight into group level phenomena.”

In this regard, the two Focus Group sessions were conducted in an informal manner and were used to re-affirm the ideas gathered at the preliminary stage; this formed a solid foundation on which to do the literature review as contained in Chapter 3.

2.7.2 Conversational Interviews

Lee asserts that “a major characteristic of the conversational interview is its openness.” In addition, that for such an interview to be effective some of the factors that are critical include:

- **Thematizing**
  A high degree of conceptual clarity regarding purpose of the research, its research questions, etc. And that these ought to be highlighted at the beginning of the interview so as to improve focus of an unstructured situation;

- **Design**

  A solid overall plan of how the research project will be conducted is critical to its success, these include the interview be more factual than interpretative; and the number of interviews to be conducted.

- **Focusing**

  Framing of the interview by the researcher needs to be done carefully, and it includes proper explanation of the purpose, providing an overview of the interview agenda, and that a debriefing will be provided at the end.

2.8 Conclusion

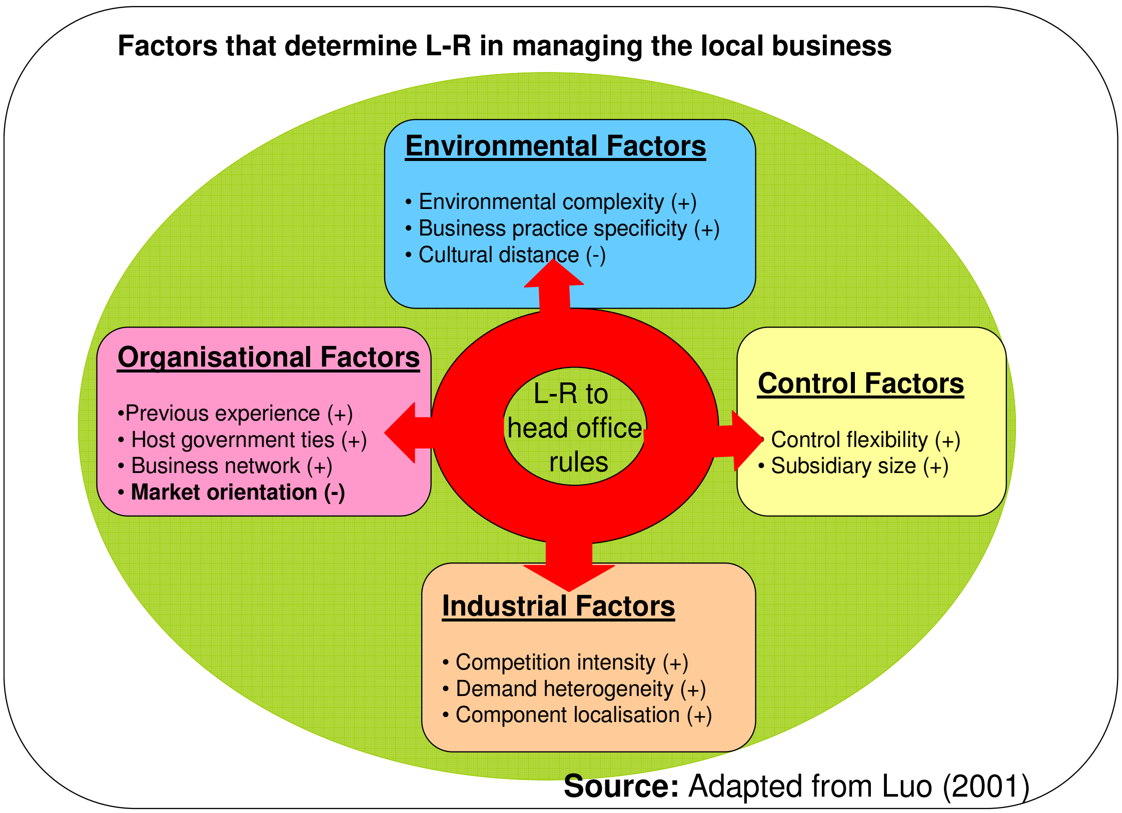
The knowledge gained in this chapter empowered the researcher to execute the next step, viz. to do an extensive literature review, with more confidence as will be evidenced in the next chapter. This same should apply with the reader of this research report. It should also be clear now that the theories and models used are perfectly suitable to the focus of this research, and this will be evident in Chapter 3 where literature is explored deeper.

That is, not only do these theories and models suit international business, but are relevant to how the head office interacts with its subsidiary so as to be able to more effectively respond to the demands and conditions of the local market in SADC region.

CHAPTER 3: Literature Review

3.1 Introduction

This chapter mainly covers the factors that are shown in the Figure 3.1 below, viz. organisational, environmental, control, as well as industrial factors respectively. Therefore, it is absolutely crucial for the reader to be familiar with this diagram as well as the Chapter 3 Table of Contents. Doing so will be beneficial in that it will be much easier to follow through the extensive literature review that is contained in this chapter.



Source: Adapted from Luo (2001)

Figure 3.1

On this Figure 3.1 the (+) sign indicates that there is a positive correlation between the respective factors and local responsiveness. For instance, the stronger the ties with the host government the more an IOC would be responsive to local market needs. Similarly, the longer the cultural distance the less responsive will an IOC be to local needs.

The chapter then ends with some “bonus” insights that are shared by various scholars; these are meant to complement this extensive literature review. Their names and coverage are**:**

- Ready, D.A., et al (2008), on how to win the race for talent in emerging markets. This has been identified as one of the challenges relating to control factors;

- Bhattacharya, A.K. et al (2008), shed light on how local companies keep multinationals at bay. This is centred around industrial factors, particularly competition intensity;

- Yeung, H.W. et al (2001), who cover the role of regional headquarters of foreign firms. They use Singapore as a case in point. This input relates closely with the control factors, particularly control flexibility.

  The link between this input and the research topic is that South Africa is actually a regional head office when one considers the fact there is Europe as well other oversees operations of the respective countries across the globe. But for purposes of this study we simply regarded it as a head office.

- Khanna, T. et al (2005), shed light on strategies that fit emerging markets. It is noteworthy that SADC is part of emerging markets, and there is, broadly, some commonalities between SADC and other emerging markets.

3.2 Comparison: Local Responsiveness vs. Global Integration

The very concept of local responsiveness talks to the relationship between the head office and the local business, whereby the benefits of global integration are balanced with the strategic imperative of remaining competitive in the local markets. That is the daunting task of managing the local business in a fiercely competitive local environment, whilst facing the constraints set by head office rules. Recognition that business operations in other SADC region countries face realities that are quite different from those in South Africa, and elsewhere in Europe, is thus important.

Local Responsiveness

According to Hill (2005: 427) pressures for local responsiveness imply that it may not be possible for a firm to realise the full benefits of experience curve and location economies. The rules from an international company may be too restrictive.

This strategy is driven by a strong orientation towards the local market that the MNC operates in; that growing the business requires strategies to be customised to fit the market challenges and each market may require a unique strategic response/approach; that those who possess intimate knowledge about the market are better positioned to sustain competitive edge. And therefore this strategy requires calibration of the relationship between head office and the subsidiary such that the head office rules are not too restrictive to the subsidiary.

It's premised on the view that**:**

- "Strategy development is continuous process rather than continual one, and thus requires responsive execution;

- Strategy may be fuzzy to some, especially in the case of a large organisation as most multinationals tend to be. And hence the need to make it more concrete by socialising it across the organisation, utilising every opportunity such as meetings and staff gatherings.

It is also noteworthy that the greater the need for local responsiveness, the lower the intensity of knowledge transfer from the headquarters to the subsidiaries (Foss and Pedersen, 2004)

In emphasizing the need for local responsiveness Raynor and Bower (2001) assert that, "No one needs convincing that in today's turbulent, competitive business environments corporations must be flexible and responsive. A host of forces are arrayed against even the most prescient strategist: technology, regulation, and globalization, to name only three.

The question companies now face is not whether they need to be nimble and quick, but how. Most of the advice on this score is remarkably consistent. Especially in large, complex, diversified companies, the prescription is more decentralization -- at the limit, an almost complete devolution of decision-making authority to the operating divisions and those people closest to emerging technologies, competitors, and customers. This point of view has been espoused so often and with such conviction that one might even refer to it as the conventional wisdom".

Global Integration

The objective of global integration is to reap the benefits of global efficiencies, by the head office controlling the various activities throughout the value chain, viz.

- Manufacturing (refining, lubricant & grease blending plants, etc.);
- Logistics (Storage & distribution);
- Sales & marketing (credit policy, retail signage, convenience store stocking and offer, final sale to the end customer at the retail service stations and commercial customer outlets).

According to Segal-Horn (2002) "… global strategies offer a strong basis for international competition. There are several reasons for this, viz.**:**

- Consumers often use size and global presence as a proxy for quality, i.e. consumers prefer to buy things that they recognise;
- As costs have risen companies have sought to spread those costs, certainly their fixed costs, over larger and larger market size;
- There are reputation and branding advantages arising from the positive reputation of international brands which companies benefit from. It also reduces their risk in launching new products using the same brands. Most consumers are now familiar with the concept of the brand extension in practice even if they are unfamiliar with the term itself".

Despite these benefits, Segal-Horns (2002) also argues that global firms carry a stigma, “The strongest criticisms accuse global firms of engineering the exploitation of workers and the environment, of widening inequalities and disparities around the world and of using the developing economies as a dumping ground for products and processes no longer acceptable in the richer world.

The popular phrase used often to describe this process is that global firms are accused of creating a ‘race to the bottom’. In this race to the bottom, global MNC’s are accused of playing off governments and workforces against each other in a battle for the lowest wages and the lowest costs, described earlier as the search by MNC’s for competitive advantage from national comparative advantage”.

3.3 Factors that Justify Local Responsiveness

According to the Harvard Institute for International Development, the major deterrents to investing in Africa include:

- Inappropriate government spending that contributes to the decay of infrastructure and educational systems;
- A high regulatory burden on business that diminishes competitiveness;
- Bureaucratic and inefficient government red tape;
- Lack of enforcement of rules and regulations;

- A high prevalence of tax evasion with investors having to bear the burden of the country's taxation;
- Perceived lack of competence in the private sector;
- Macroeconomic instability;
- Civil wars and unrest;
- Lack of local capital; and
- State monopolies, foreign exchange restrictions, and quotas contributing to exports disincentive.

The results of various Unctad and OECD studies reinforce the above conclusions.

3.3.1 Organisational Factors

3.3.1.1 Previous Experience

In its review of the risks and challenges of doing business in Africa the Mbendi Information Service asserts that "The biggest challenge to doing business in Africa is the lack of quality information about Africa". On the other hand, Arnold and Quelch (1998) emphasise that "MNC's that have participated longer in the market will enjoy stronger, more favourable relationships than later entrants".

This issue of previous experience should thus be viewed against the background that lack of quality information is one of the key hindrances to foreign investors in the African continent, and SADC is naturally so affected.

Therefore the more experience an organisation has in the host market, particularly if it's been a positive one, the more likely it is for it to commit its resources and invest knowledge in that market. That is, these will the support the organisation's (i.e. head office) efforts to enhance its local responsiveness to market conditions, and interact with the subsidiary in a manner that facilitates how it manages its business.

Beckett and Sudarkasa (2000) assert that "…the diversity of Africa is almost always understated, to the point that when Africa is discussed it is as if it is one homogenous country. The fact that the continent is over three times the size of the United States, with its population speaking thousands of different languages, living in countries with drastically different climates and cultures, and comprised of peoples with quite varied stories, is rarely presented".

Being more locally responsive under these circumstances does not entail operational uncertainties but rather it enhances economic efficiencies and encourages corporate citizenry on the part of the organisation. The latter may change the perception that international oil companies are deep-pocketed and not worthy of trust by local community, viz. both the host government and its national citizens.

Important to note is that according to Luo (2001) this factor is closely related to**:**

- Strength of ties with the host government:
  The organisation can better feel the pulse of the regulatory framework, including the direction of policy development and friendliness towards foreign investors.

- Quality of business networks

  The stronger the business forums and networks, within the oil industry and across various industries, the easier it is to influence government policy and/or regulatory bodies in the host country. For instance, the forum can negotiate increased wholesale margins for the oil industry, and speak with one voice in order to have more impact.

3.3.1.2 Host Government Support

The host government is naturally a key player in any economy due its influence on the business climate, and this is especially so in the emerging markets. According to Arnold *et.al*. (1998) "National and local governments and other regulatory bodies are far more influential in EMs than in developed-country market systems…. The early establishment of relationships with government can result in tangible benefits such as the granting of one of a limited number of licenses or permits".

Segal-Horn (20020 argues, "Some re-working is needed of the respective roles and functioning of national governments and global firms….Cross-border firms require cross-border institutions. Nation-states and their governments have to either cooperate better with each other or cooperate better with the institutions that they create at a transnational level such the World Trade Organisation (WTO)".

This, however, does not necessarily mean that business organisations are primarily pleasing the government but that the latter also has better insights into the culture of the market; can steer the organisation towards improved consumer service.

In reciprocation, the organisation “motivates subsidiary managers to establish sustained, solid relationships with indigenous customers, suppliers, distributors, competitors, and governmental authorities which, in turn creates more competitive opportunities or extenuates contextual hazards for the subsidiary as well as its parent firm” (Ghoshal & Nohria, 1989).

These other stakeholders become critical at industry forums when they have to engage the government with one voice in support of an investor-conducive legislation. Hence Anorld and Quelch (1998) sum it up thus, “…. many EM governments are still establishing new pro-business regulations, and MNC’s already investing in an EM will be favourably positioned to influence the regulation of the market in price control or the opening of communications media.….Executives familiar with EM’s invariably stress the great importance of personal relationships with key local players, in both the public and private sectors …”.

3.3.1.3 Business Networks

Business networks add value to an organisation’s competitive edge, improving its local responsiveness, and seizing new opportunities. Although these relationships remain informal, they however constitute a valuable investment for the organisation.

The dividing line between business networking and personal networking is very thin – they are interlinked; often the parties concerned build personal networks in their capacity as representatives of their respective organisations. It is an essential tool that is particularly recognised in the Far East – including China, Asia, and Singapore.

Writing on MNE's in Emerging Markets, Luo (2002) asserts that personal networking is**:**

- A legal tool that may complement law and stipulates business success;
- Premised on exchange and reciprocity of favours. There is no time limit on when you will return the favour nor does it stipulate that you return it on a one-for-one basis but one has an unwritten obligation to reciprocate. Failure to honour this reciprocity would stake one's reputation and personal standing in the society and business circles and break that particular set of networks, for one would have broken trust vested upon her.
- Focussed on long-term existence, strengthened through continual interaction. On the other hand, Lea *et a*l (2006) assert that a social network is "a set of people, organisations..….connected by a set of socially meaningful relationship, co-working or information exchange, and interactions to better achieve desired outcomes, by sharing expertise, resources, and information". He describes this network "as people who occasionally discuss important matters with other people, communicate to get work done, and spend time with each other after working hours or socialise informally".

  These business networks add even more value when taken a step further to include players outside the oil industry. Thus, the network widens to stakeholders such as customers, suppliers, and transport logistics. In this regard, Koll *et al.* (2005: 1169) asserts that "maintaining relationships with constituencies is a resource-intensive effort. Therefore a trade-off between the diverse relationships to different key players can be assumed: By putting more emphasis on certain relationships, others may have to be limited, and vice versa".

To measure the difference between attentions given to respective stakeholders is difficult. So, it's advisable that organisations avoid aiming for extremely high levels of responsiveness to any one group. This is especially if such behaviour results in below average responsiveness to another group. Resources need to be spent wisely between the different constituencies since organisations face a limited capacity to be responsive (Koll *et al*, 2005:1180).

It's noteworthy that some stakeholders are better addressed at industry level than individual company level. Hence, the essence of business forums as well as industry associations is critical.

3.3.1.4 Market Orientation

This matter is about the extent to which the organisation serves the local market in comparison to the export/foreign market; those that focus on the local market face more pressure to be locally responsive. Luo (2001) articulates this matter thus, "Firms with local market orientation are expected to face a greater impact from environmental and industrial factors than those with market orientation". Of course, the environmental factors include the complexity of such environment, business specificity, and cultural distance; industrial factors refer to competition intensity, demand heterogeneity, and component localisation.

What this means is that there is direct correlation between these factors and local market orientation. This Luo (2001) clarifies, "Subsidiaries pursuing a local market orientation have more direct interactions with local business community and host government authorities, which demands more local responsiveness". This naturally supports the objective of market share expansion, something that is crucial to sustained presence in any market.

3.3.2 Environmental Factors

3.3.2.1 Environmental Complexity

The quality of information is central to environmental complexity; there is an inverse relationship between the two. That is, a lower reliability of the information implies a more complex (business) environment; there is difficulty in taking strategic decisions such as allocation of key resources.

A pertinent risk in emerging markets relates to bureaucracy, something Luo (2001) articulates thus, “To MNE’s it is important to realise several commonalities among foreign emerging markets. First, legal infrastructure, including legal system development and enforcement, is generally weak in emerging markets. It is generally less difficult to enact and develop various laws, but political, social, historical, or cultural factors often impede the implementation and enforcement of these laws. People rather than the laws themselves, still play a significant role in shaping commercial activities.” The fellow African markets tend to follow this trend too, something which some MNE’s respond to by withdrawing their investment or maintaining a relatively small scale of operations.

Beckett and Sudarkasa (2000) encourage foreign investors in Africa to solicit services of a local legal counsel who will have first hand grip on the regulatory intricacies of the country. And this includes a no-guarantee that one could look up to the government bodies for enforcement of contracts, particularly since MNE still carry the “foreign capitalists” stigma.

3.3.2.2 Business Practice Specificity

Luo (2001) asserts that “Business and commercial practices in a dynamic environment (e.g. unique terms of payment, higher price sensitivity, …) vary from those permeating in advanced market economies….. Thus, when a subsidiary operates in an unfamiliar business context, it must be adaptive and responsive. This will facilitate the acquisition of country-specific knowledge and promote the firm’s corporate image”.

There is a link between business practice specificity and country-specific knowledge; deeper insight into the local market informs actions taken by the organisations. In turn this helps towards reducing the foreignness of the organisation and thus enhancing prospects of improved returns on investment.

Since the infrastructure is one of the major components of business practice specificity, the researcher decided to focus more on it.

Infrastructure naturally serves as a meaningful platform for enhanced efficiencies in a business’ operations; an organisation that is based in a location with better facilities is likely to minimise cost elements. As such, in appraising opportunities in the Continent countries must be ranked in terms of their vested infrastructure (Beckett and Sudarkasa, 2000).

According to an internal document that was used for benchmarking purposes logistics constitutes a significant portion of its cost-base. In addition, confidential Board Papers (used as a pre-read) further assert that sustainable cost efficiencies are enhanced by**:**

- High entry barriers in the form of capital investment, inherent environmental risk – especially in light of social activist groups;

- Relegating other competitors to a higher cost bracket of secondary transportation (i.e. from depot to end customer or service station);

- Providing a uniquely lower cost product supply into a higher cost region;

- Facilitating product exchanges between markets and providing a higher level of reliability and quality than alternatives. This refers to a situation where, for instance other SADC countries, source product from South Africa; sometimes it comes from, say Tanzania to Zambia.

In addition, the context of this research regards value-add in terms of local business infrastructure as measured by**:**

- Market share enhancement or at least protection;

- Cost efficiency that is sustainable especially in a market with competitive barriers, such as capital intensive industry, and one where there are strong activist groups that constantly pose public opposition relating to environmental issues;

- Stock-outs minimisation, in terms of both frequency and duration; one that facilitates point-to-point product exchange;

- Health and safety hazards such as spillages, contaminations, injuries, and deaths are minimal, as well as overall reliability of services;

According to Becket and Sudarkasa (2000) "Africa's inland waterways have never been fully developed for larger vessels, and the rail networks have historically only been constructed for slow freight moving over limited distances, generally from inland areas towards the coastal ports. Thus, even where rail and water transport routes have been available, roadway travel has remained an integral component of the transport route for significant lengths of the cargo or passenger's route."

"Overall, in Africa road density per square kilometre is among the lowest in the world; significantly less than in Asia and Latin America" – as depicted in Figure 3.2.

Africa's Road Density per Square Kilometer

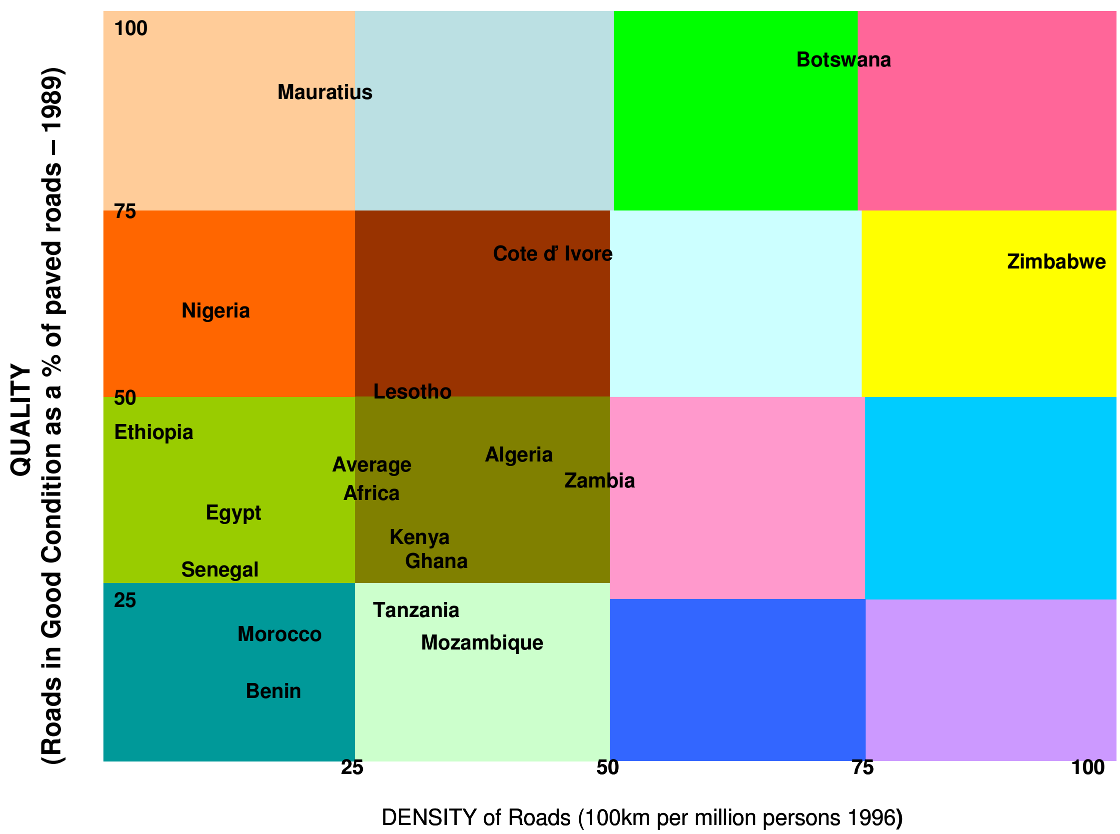


Figure 3.2

Source: Beckett and Sudarkasa (2000)

A document that has been compiled by the Ministry of Transport and Public Works in Mozambique demonstrates a very wide gap between road and rail transport mode in Mozambique. This is depicted in Table 3.1 below.

Table 3.1

Domestic Traffic Distribution by Transport Mode					
	2001	**2002**	**2003**	**2004**	**2005 (E)**
Freight ('000 tonnes)					
Rail	257	184	115	106	103
Lake	5	8	4	6	7
Road	229	279	236	234	230
Air (international)*	4	9	4	2	3
Passengers ('000)					
Rail	599	603	532	381	321
Lake	70	76	78	82	88
Road	74 888	92 610	75 335	71 640	70 347
Air (international)*	308	282	284	240	244
Vehicle registration ('000)	14	10	7	8	8

Source: Ministry of Transport and Public Works in Mozambique

(E): Only an estimate at the time. The updated information could not be obtained.

* For purposes of this research air as a mode of transport is not covered.

It is clear from this Table 3.1 that in Mozambique from the year 2002 until 2005 there has been a consistent decline in the volumes that are transported by rail compared to road. This can be assumed to be the same situation in other countries that have been sampled for purposes of this study.

3.3.2.3 Cultural Distance

According to Luo (2001), "Cultural distance implies differences in managerial values, mind-sets, and norms. Although firms may want to be more responsive to the market where there is greater cultural distance, the presence of barriers arising from cultural is likely to have a greater impact on the level of local responsiveness…".

Its impact takes many forms such as employees boycotting expatriate staff, work processes gone wrong, as well supplier and distributor inefficiencies. In their research, Petison and Johri (2008) found that seven foreign motor manufacturers that were operating in Thailand adopted the following measures**:**

- Appointing local managers with a view to mitigate the pertinent conflicts between workers and expatriates;

- Strengthening relationships between expatriates and the unions through aspects such as language.

3.3.3 Industrial Factors

It is worth highlighting that the information provided in this section, viz. industrial factors, is from corporate internal documents that were obtained in confidentiality. These include Board papers (i.e. pre-read) as well as presentations made at strategy sessions by senior leadership. This is the case, except where indicated otherwise.

3.3.3.1 Competition in the Domestic Market

The battleground in the domestic market is defined in terms of cost pressures, which translates into whether an organisation achieves sustained profitability or not; those that can't suppress costs tend to inevitably exit from such market.

A review of the various Board papers and internal presentations of both IOC's and LOC's indicate that there are various factors that contribute to the cost pressures that their organisations face. Information carries a prime value and was singled out as being central, particularly in a deregulated market where prices change so rapidly – as much as 3 times in a day. As such within the organisation the various functions such as business development, marketing, finance, and logistics play a critical role in gathering and disseminating the information across the organisation.

According to the corporate Pricing Policy and Procedures documents various factors were indentified as contributing to prices and necessarily cost pressures, and have to be tracked, include the following**:**

- <u>Foreign exchange fluctuations</u>
  Imported products are US$ denominated and the relatively weak local currencies are vulnerable. Interlinked are the OPEC and Platt prices, requiring that economic developments globally be monitored or tracked to crude prices. The finance or treasury team has to have this data handy and share it with the business functions.

- Budget Pronouncements

  Regular pronouncements by the government regarding changes in the economic parameters do affect product prices. A clear interpretation of these, particularly by the treasury/finance team is crucial. In addition, the government regulatory bodies may from time to time effect changes on duties and taxes.

  These often affect both imported as well as locally refined fuel products. Rapport with these regulatory bodies facilitates the obtainment of instant information – a unique challenge in SADC region.

- Competitors

  Price is the battle ground in a fiercely competitive market, especially where it affects not just the commercial business but (in deregulated markets) the retail one as well. And it's noteworthy that the commercial business is prone to a stronger bargaining power of customers, which includes their reluctance to enter into formal contracts with the oil companies.

  The final computed price that is charged to the customers depends on factors that include the type of product as well as product source. Imports are often facilitated by the IOC's Supply & Trading team. Lubricants and greases are often sourced from South Africa, although due to cost aspects agreements are sometimes entered into with local blending plants in the respective local markets – though minimal due to quality aspects and brand image.

- The supply-demand situation of sister companies within fellow African countries, and this will be driven by cost factors taking into account the transport mode and distance.

In other words, product is often transported from Mozambique to Zimbabwe or Tanzania to Zambia. There are mainly three modes of transport, viz. road, rail, and pipeline - these modes of transport bear differing cost levels.

- Lack of quality information was found to be a common challenge to the banking sector as well. A study of a commercial bank in Tanzania revealed that "The bank has a well documented credit risk management (CRM) policy that elaborates the products offered and all activities that have to be performed to manage the CR. It also has a credit manual that documents and elaborates the strategies for managing CR and they are formulated in compliance with the bank credit policy." – Richard E et al (2008).

  Richard et al (2008) further assert that "Quantitative credit scoring techniques are not used at all. Personal judgement and intuition plays a big role in credit assessment". Thus, the banking industry have a more creative approach to credit risk management, viz. they also use staff social networks as part of the credit assessment. And this means that doing business in Africa requires some art too.

  Similarly, in efforts to identify business prospects Anorld and Quelch (1998) describe emerging markets as information-poor and assert that, "….reliable market research data are often unavailable in EMs, companies must identify their own indicators to serve as acceptable surrogates for assessing demand. Such approaches to market assessment require local knowledge, modest resources for some field investigation, occasional creativity in identifying suitable indicators, and a willingness to proceed on managerial judgment without the backup support of detailed research data".

They further assert that "Since reliable market research data are often unavailable in EM's, companies must identify their own indicators ….. Such approaches…..require local knowledge, modest resources for some field investigation, occasional creativity in identifying suitable indicators, and a willingness to proceed on managerial judgment without the backup support of detailed research data".

3.3.3.2 Demand Heterogeneity

The composition of the customer base plays a significant role regarding local responsiveness in that "in an economically dynamic and culturally diverse market demand and consumer behaviour are likely to differ according to region, income, gender, education and other demographic attributes. This increases the pressure on foreign subsidiaries to be locally responsive if they are seeking firm growth" (Luo, 2001)

According to business plans compiled by the various IOC's it emerged that heterogeneity within the oil industry context can be explained in terms of the retail as well as commercial sectors of the customer base. This is explained thus**:**

<u>Retail Sector</u>

According to the IOC Board papers – both the pre-read as well as minutes - it was highlighted that whilst car fuel appears to be a homogenous product it does vary, viz. cleaner fuels cater for later model vehicles, requires infrastructure investment both at the refinery and service stations. Further, urban areas consist of a larger customer base with smaller consumer demand, whilst the outlying areas have fewer but large consumption customers (e.g. mines, farmers, etc.).

Commercial Sector

The main consumption for this sector is diesel, lubricants and greases more than petrol. The consumption per customer is much larger than that of retail customers. On the other hand, demand is driven by competitive discounting and strong price-negotiation. The fact that this customer-base refuse to enter into formal contracts makes their mobility between oil companies high.

Writing on Multinational Enterprises in Emerging Markets, Luo (2002) asserts “In an economically dynamic and culturally diverse market demand and consumer behaviour are likely to differ according to region, income, gender, education and other demographic attributes. This increases the pressure on foreign subsidiaries to be locally responsive if they are seeking firm growth”. Roth and Morrison (1990) suggest that having a variety of customers and geographical markets within a national market escalates the level of local responsiveness.

A more standardized and less heterogeneous market makes it easier for a MNE to expand throughout the breadth of the market and yield financial and operational synergies from global integration (Bartlett & Goshal, 1989; Kim Hwang & Burgers, 1993).

When heterogeneity increases, however, it will be more difficult and thus less efficient for an MNE to globally deploy rent-generated resources and monitor dispersed operations (Doz & Prahalad, 1991; Yip, 1995)”

3.3.3.3 Component Localisation

According to Luo (2002), content localisation is one of the measures that regulate multinational enterprise operations. He asserts, “A foreign company is often required to purchase and use local materials, parts, semi-products, or other supplies made by indigenous firms for the production of its final outputs. The required level of localisation varies across industries”.
This, of course, also supports the need for multi-national companies to minimise the perception about their foreignness; becoming a loyal corporate citizen carries a unique status in the target market.

It is against this background that localisation is often part of the host governments’ pre-requisites for granting a trading licence. Alluding to this fact, Martinez and Dacin (1999) articulates, “Many dynamic, emerging economies employ this policy in order to stimulate economic development particularly in pillar sectors. As an institutional force, a localization requirement increases pressure on companies to be more locally responsive. This requirement constitutes institutional and normative forces that will increase transaction costs those firms not adapted to them”.
This naturally increases the need for local responsiveness in that it partly strengthens the bargaining powers of suppliers since they know that government regulations are on their side.

Organisations such as SAB-Miller have even gone to an extent of working in partnership with these local suppliers, with a view to up-skill them so that they meet SAB-Miller’s minimum standards. This boosts the image of the foreign-investor organisation due to the fact that it is thus regarded as being loyal to the host country and committed to the development of its economy. Necessarily, their sales & business growth is enhanced accordingly.

In the case of Thailand based automobile manufacturers, Petison and Johri (2008) found that their strong relationship with suppliers mitigated against loss of product design information and business intelligence to their competitors. It was also a way of roping suppliers away from the competitors of the automobile manufacturers, something with an added advantage of smooth supply of input material for the plants.

Whilst this is the case and the requirement is there oil companies still lag behind and largely ignore this institutional framework. They still mostly secure forecourt equipment from RSA and other parts of the world, outside the SADC. And this has an adverse impact on their profitability since such imports incur heavy import duties.

3.3.4 Control Factors

3.3.4.1 Control Flexibility

The challenges of corporate parenting often come into play in so far as the alignment of both the formulation as well as implementation of strategy. Anorld and Quelch (1998) emphasise that “the tension between corporate control and local autonomy is particularly problematic in EM’s, given MNCs' extreme unfamiliarity with the **local** marketing environments”.

Lasserre (2003) refers to local responsiveness as localisation, and states “The benefits of localisation,….., are essentially customer-oriented benefits that give firms an increased market power and ultimately an increased market share. Those benefits are flexibility, proximity and quick response time”.

In elaboration he states that “Flexibility, proximity and quick response time are very much related to each other: proximity provides the basis for flexibility and flexibility provides the basis for quick response time”.

On the other hand, according to Raynor and Bower (2001) “…traditional thinking is that only business units -- not the corporate office -- create value for the company. But we've found the corporate office can create value by assembling a portfolio of assets and capabilities that will drive competition in the future -- and managing those assets in a flexible way so as not to hinder the ability of the divisions to compete now. Although the performance results show up in better competitiveness at the business-unit level, the seeds of the success -- the value creation -- reside in the forward-looking actions of the corporate office”.

Organisations get caught in a paradoxical position. There is the general belief that cooperation, sharing, and teamwork are intrinsically good for organizations – essentially referring to global integration. But on the other hand reality is that collaboration is not always good for organizations and should always be approached with caution, on a case-by-case. That is, if synergies are pursued blindly they can actually backfire, eroding customer relationships, damaging brands, or undermining employee morale.

Thus, such synergy efforts end up destroying value rather than creating it. And this is why the relationship between the head office and its subsidiary should be calibrated in such a way that the subsidiary can better adapt the strategy implementation to suit the local market conditions.

This head office-subsidiary relationship is strongly driven by the organisational structure of the IOC. This is based on views of Bartlett and Ghoshal (1989), viz. “different types of organizational structure evolve as a function of two key determinants. The first factor is the need for firms to match their capabilities to the strategic demands of their businesses.

Hence, companies that manage a portfolio of multiple national entities perform well when the key strategic requirement is a high degree of responsiveness to differences in national environments around the world. Where global efficiency is vital, more centralized strategic and operational decision making and the treatment of the world market as an integrated whole appeared most suitable”.

They further argue that where transfer of knowledge is crucial, a structure that leveraged learning by adapting the parent company's expertise to foreign markets was preferred. Therefore when head office initiates the process of deciding an optimal organisational structure they should take into consideration the following**:**

- As Raynor and Bower (2001) state that the combination of strict financial controls with a flexible structure is crucial. They emphasise thus, “The powerful financial controls and planning associated with traditional diversified companies must be in place to ensure that individual businesses maintain strong performance results. However, a conventional group structure is likely to be inappropriate. Group structures typically make it more difficult for the corporate office to identify and assess the full range of possible cross-divisional opportunities.

Moreover, interdivisional cooperation is usually hardwired by the structure, limited to divisions in the same group. Group structures also tend to make it more difficult for corporate line leadership -- not financial or planning staff -- to communicate regularly with operating business managers about strategic questions.

A more flexible structure, coupled with tight financial controls, best serves a dynamic corporate strategy. Compensation structures, too, must be flexible enough to support frequent and significant changes in strategic priorities".

- When the head office exercises iron-fisted powers this often yields negative results, e.g. head office executives end up losing control of their subsidiary operations due to the fact that dialogue is stifled. The risk that arises particularly from the subsidiary's side can be costly, and comes in varying ways such as passive resistance, rebellion, low morale, and high staff turnover. The head office needs to be cautious in exercising its hands-on leadership which, on the other hand, can be empowering and positively impact its engaging of subsidiary.

  Raynor and Bower (2001) emphasise this point thus, "In creating strategic flexibility, a corporate office must balance the immediate need for divisional autonomy with the potential need for future cooperation. Without this balance, divisions may act in ways that advance their current competitiveness but undermine opportunities to collaborate in the future".

- The views expressed by Jeffrey and Laurie (2008) need to be seriously considered, viz. that "blaming resisters not only is pointless but can actually lead to destructive managerial behaviours.

- When managers perceive resistance as a threat, they may become competitive, defensive, or uncommunicative. They are sometimes so concerned with being right -- and not looking bad -- that they lose sight of their original goals.

  In stubbornly pushing things through without understanding the resistance, they sacrifice goodwill, put valuable relationships in jeopardy, and squander the opportunity to engage sceptics in service of a better plan."

3.3.4.2 Trade Barriers within the Local Market

According to Thompson *et al* (2005) low barriers allow small firms to enter quickly and cheaply into the market. A look at the Zimbabwean market reveals that there are at least 85 players in the oil industry; this is the trend in other SADC countries as well. The local oil companies, which include, independent operators as well have flooded the market, something that is made possible by their low investment in fixed capital. The fact that their sites are not branded makes exit from the market significantly cheaper than the case is with a branded organisation such as an IOC.

Another critical factor relating trade barriers has been found to be tariffs that are imposed on petroleum products. These products are imported, whether in crude form or refined status, and hence attract a lot of duties and levies.

3.4 Seminal Literature on Local Responsiveness

3.4.1 Khanna, T and Palepu, K.G and Sinha, J. 2005. *Strategies That Fit Emerging Markets.* Harvard Business Review 83 (6)

Organisations that struggle to make inroads in the emerging markets are those that opt for standardized approaches rather than localisation to suit the target markets. Their reluctant approach is informed partly by the lack of "soft" infrastructure in these markets, e.g.**:**

- Effective legal systems that would make contracts enforceable as the case is in developed world. Trust issues arise regarding adherence to local laws. The weak corporate governance structures compound this further.

- Talent-search firms that would facilitate effective recruitment by making available not just the skills pool available in the market, but also its component structure, which includes managerial levels as well as technical skills. In addition, there is generally a severe shortage of skills.

- Market research bodies that provide data on consumer profiles;

- End-to-end logistics providers.

These so called institutional voids make it difficult to blindly replicate strategies onto the local markets. Companies can enhance their success chances by working around these voids rather than avoiding them. Thus "Companies should analyze industry structures - always a useful exercise - only after they understand a country's institutional context".

The authors also note that the commonly applied tool of Country Portfolio Analysis is inadequate in that it does not factor the soft infrastructural issues. Rather, organisations should capitalise on the strengths of the respective market locations, but taking the cost-benefit analysis into account. Based on this analysis, they have three options, viz. adapt their strategies, change the contexts, or stay away from that market.

3.4.2 Yeung, H.W. and Poon, J. and Perry M. 2001. Towards a Regional *Strategy: The Role of Regional Headquarters of Foreign Firms in Singapore.* Urban Studies 38 (1)

The angle taken in this article is on regional headquarters, which in the context of this study would be South Africa. But the views they articulate are befittingly replicable to the current research which looks at South Africa as the head office and how it approaches the satellite business operations in the target SADC markets.

The authors believe that managing from a distance "is no longer an acceptable tool for strategic management in a world of keen competition and high demand for local responsiveness". That is,

- Geographic-distance poses a choice of either a remote strategy implementation or vesting more discretionary authority on local management to decide on entrepreneurial actions necessary for business growth. They are after all better positioned to understand the ever-changing dynamics of the local market.
  Where the local market is culturally diverse from the head office, then this geographic distance becomes even more problematic.

- Strategic-necessity may imply persuading the organisation to demonstrate its commitment to building the local operation as a form of commitment to economic development of its country.

3.4.3 Bhattacharya, Arindam K., Michael, David C. 2008. How Local Companies Keep Multinationals at Bay. Harvard Business Review 86 (3)

The authors assert that multinational organisations “possessed state-of-the-art technologies and products, enormous financial resources, powerful brands, and the world's best management talent and systems.” That in addition, “The obstacles and opportunities that characterize emerging markets render useless most cookie-cutter strategies. Only companies that are unfazed by such contradictions are likely to succeed”.

Local companies tend to have competitive edge still. These authors paint a persuasive scenario about the blind spots and misconceptions of transnational organisations in their approach to emerging markets' local dynamics. For instance, that they regard these markets as backward rather than different; and expecting that they will ultimately catch up with the developed world's markets, thus rendering global strategies relevant.

On the other hand, local companies' edge stems from several factors, viz.**:**

- Flexibility to customise products and services customer requirements.
  “They know people's preferences by region or even city, by income level, by age group, and by gender. These companies also grasp the structures of the raw-materials, components, and finished-goods markets in which they operate.

They are therefore able to provide consumers with a low level of customization inexpensively". And they go for economies of scope before economies of scale.

- Developing business models that overcome roadblocks and yield competitive advantages in the process, including infrastructural aspects like distribution as well as telecommunications. This is also facilitated by the fact that they don't have heavy sunk costs or investment that could be constraining.

- Innovative ways to benefit from low-cost labour pools and to overcome shortages of skilled talent. In addition, they have better reach to the deep talent within the local market – though fewer in number.
  On the other hand, gone are the days when talented people viewed global companies as superior in terms of culture, working conditions, etc. There is now a good proportion of those that favour local organisations to multinationals.

- Possession of management skills and talent that multinational companies often underestimate.

3.4.4 Ready, D.A. and Hill, L.A and Conger, J.A. 2008. Winning the Race for Talent in Emerging Markets. Harvard Business Review 86 (11)

The effectiveness of an organisation's performance in the market is largely driven by the quality of its leadership and staff broadly; they are the ones who formulate strategies and implement them. Therefore, an insight on how to attract and retain them is absolute essential.

This is also compounded by the fact that comparatively high growth rates in emerging markets – SADC included in comparison to South Africa – makes people realise how marketable they are; that greener pastures are not only in the multinationals but the local and regional organisations too.

It is against this background that these authors have done their study, so as "… to identify the factors that differentiate the successful from the less so …". They concluded that there are four dimensions to talent recruitment and retention in emerging markets, viz. purpose, opportunity, brand, and culture. Refer Table 3.2 below for more detail**:**

Table 3.2

Framework for Talent Recruitment and Retention	
Purpose	**Brand**
Guiding Mission & Values	Reputation for excellence
Global citizenship	Leading global company
Commitment to the Region/Country or the local market	Inspirational Leadedership
Opportunity	**Culture**
Challenging work	Authenticity (e.g. merit-based reward system)
Accelerated career track; Growth opportuinities	Meritocracy, i.e. follow through on promises made
Continual training and development	Connection
Competitive pay	Talent-centricity

Source: Reddy et al (2008); Havard Business Review 86 (11)

The essence of understand the employee in entirety was also noted by the authors. For example, that someone who does not have siblings, and has grown up as the centre of attention, has difficulty accepting negative feedback. The manager concerned has to be a little more careful in balancing the imperative of appropriate performance management.

3.5 Conclusion

The purpose of this literature review was to seek an understanding into what constitutes local responsiveness in the context of international business, particularly in light of the relationship between the head office and the subsidiary. The local responsiveness is again the trigger for a subsidiary to react to the head office in so far as the rules of head office inhibit its efforts in managing a sustainable business.

This chapter also highlighted some gaps which international oil companies (IOC's) can bridge if they are to leverage the subsidiary's insights into the local market. This would then lead to the IOC's improving their contribution in these markets; they would not only generate competitive returns on their investments but become valued corporate citizens too. In other words by calibrating the interaction between the head office and its subsidiary, then the local employees will have more inspiration to deliver on the IOC's performance and become its ambassadors too.

The value of this chapter is that it contains valuable insights from various sources, including the corporate world and academics. Following a reflection on these insights the researcher was then able to formulate a research questionnaire that guides the fieldwork or data gathering process. The results contained in the next chapter are therefore a direct outcome of this literature review.

CHAPTER 4

Research Methodology

4.1 Introduction

This chapter covers the methodology followed in conducting this research project, and includes the research process, measuring instruments, limitations, as well as ethical considerations. Leedy & Ormrod (2005) assert that research is "..a systematic process of collecting, analyzing, and interpreting information (data) in order to increase our understanding of the phenomenon about which we are interested"

They further assert that the research methodology refers to the general approach that the researcher takes in carrying out a research project, and informs the choice of research tools to be used (Leedy & Ormrod, 2005, p.12). The choice of a research methodology has an impact on the value add of the outcome of the research; thus the choice is very critical.

4.1.1 Purpose

The purpose of this chapter is therefore to describe the research methodology in order to address the research problem and sub-problems as identified in Chapter 1 of this research paper.

4.1.2 Research Problem and Sub-problems

This research report is about addressing the key problem of how to improve local responsiveness in strategy implementation of the International Oil Companies (IOC's) - viz. oil industry - in the SADC Region and thus managing the local business in a sustainable way. This problem is addressed by considering the following**:**

- Is the subsidiary's performance enhanced in executing the head office rules?
- Is the subsidiary responsive enough to the realities of the local markets in the SADC region?
- Does the head office understand the realities of the oil industry in the local markets of the SADC region?

4.1.3 The Research Process

The research methodology followed the process as depicted in Figure 4.1 below, which will be discussed in detail in paragraphs that follow.

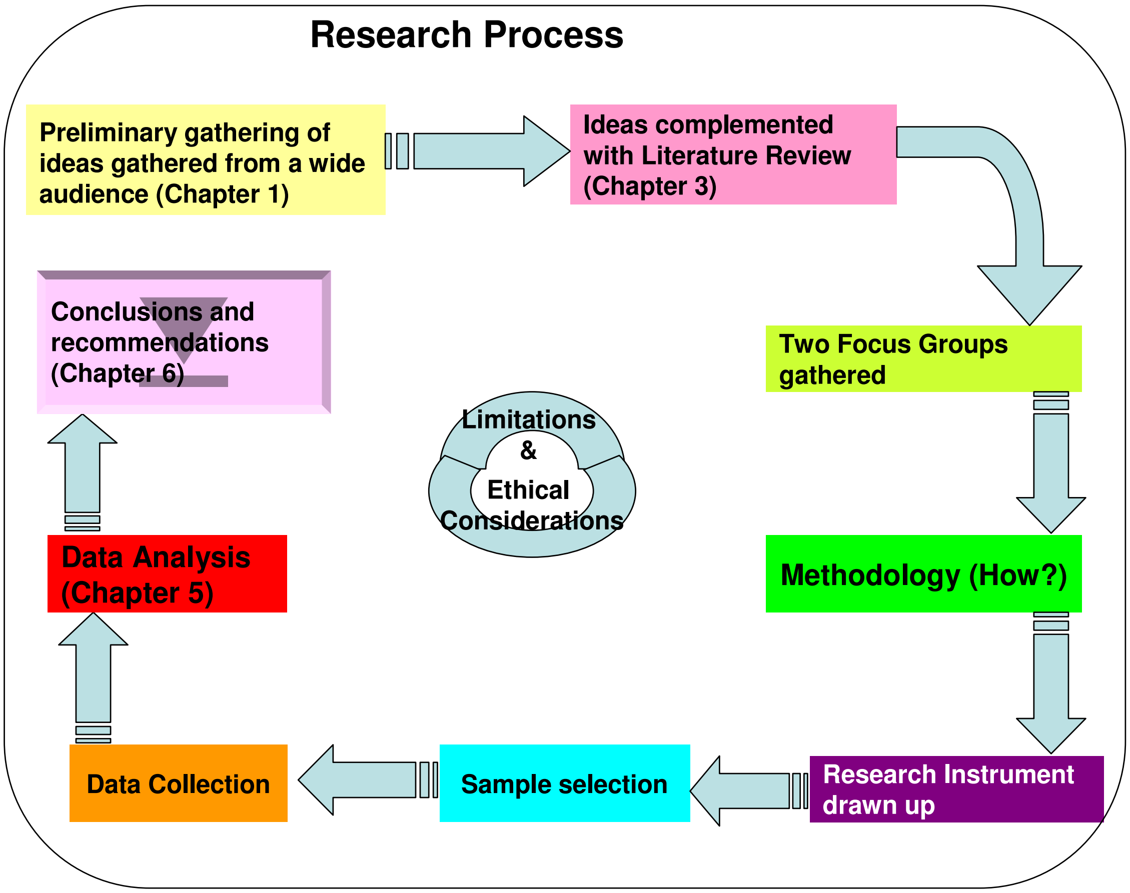


Figure 4.1

The preliminary gathering of data was used as a means of getting an idea of what the issues are that pertain to this topic. That is, it was done before the researcher started to work on this project. The objective was to gain some self-assurance that this topic was indeed worthwhile.

So, in order to break the ground emails were sent to several people soliciting their views on what the challenges are within the oil industry in the SADC region. Some people were descriptive whereas other provided merely bullet points. However there was commonality on the majority of issues raised. This was complemented with literature review and used as a basis for compiling the questionnaire.

4.2 Research Strategies

A combination of Focus Groups as well as the Conversational Interviews will be applied in this research. The choice of a focus group was based on the fact that the researcher would initially have an opportunity to deepen his insights into the issues that had been gathered. With that insight then one-on-one interviews would add more value. So, in order to stimulate this exchange the researcher has to facilitate the discussion, thus interviewing the group.

4.2.1 Focus Groups

Lee (1999) describes focus group thus, “By conducting one or more focus groups, a researcher can collect data on individuals’ opinions, attitudes, and self-reported behaviors. More important, the interactive discussions that take place in focus groups - in which members share and compare their experiences, resulting in potentially powerful social facilitation – can provide researchers with substantial insight into group level phenomena.”

In this regard, the two Focus Group sessions were conducted in an informal manner and were used to re-affirm the ideas gathered at the preliminary stage as well as through the literature review.

The topic being researched impacts the entire value chain of an oil company, particularly a MNC. So, by bringing key players from the various areas of the business within the industry the researcher was able to facilitate a cross-pollination of views – bringing enrichment to the conversations.

The size of each group was between 4-6 participants and as far as possible they were at an equivalent level in terms of the organisation's hierarchy. The rationale behind this was to better manage the inherent group dynamics and enhancing free expression of ideas whilst facilitating the discussions.

In addition, they represented the various aspects of the value chain so as to bring the necessary linkage in views. That is, decisions and actions of one function, say refining have an impact on logistics, and on marketing; similarly human resource decisions and policies impact everyone across the value chain.

The fact that some of the participants had been with their current employer for less than 2 years served to further enrich the conversation from a views-diversity perspective. This, especially since they came from other organisations within the industry.

4.2.2 Conversational Interviews

According to Saunders et al (2003) an interview is "a purposeful discussion between two or more people". A conversational interview is open and quite adaptable to the interviewee. However, the researcher was mindful of the risk that the interview may go astray and consume time. So, the researcher had some questions to guide the interview.

Some of the basics that the researcher was mindful of in preparation and during the interview included**:**

- The researcher needs to have an in-depth insight into the subject being researched. In this regard the preliminary collection of issues from a wide range of people, as well as the subsequent focus group served this purpose;

- The researcher needs to understand that the risk of influencing the outcome of results via bias is quite high;

- The purpose of the interview must be to explain, and the research participant given an opportunity to seek clarity on aspect she might have doubts on;

- The length of the interview must be mentioned upfront so that the research participant does not become impatient whilst the interview is still in progress

4.3 Research Participants

Once the two focus group sessions had been completed then it was time to select a sample of participants for the one-on-one interviews. The choice of whom to interview was guided by their background and insight into the industry, economics, regulatory framework, diversity in terms of experience, and that they may have operated in more than one country.
In terms of profile they included**:**

- Country managers, i.e. managing directors of the respective subsidiaries in Mozambique, Malawi, Tanzania, Zambia, and Zimbabwe;

- Cluster leaders, i.e. supervisors of the country managers; the organisational structure tends to be such that this person would oversee a particular region within the African continent;

- General Managers, i.e. a level higher than the Cluster Leaders. These tended to have been country leaders at some point in their careers;
- Sales and Marketing managers, based in the subsidiary organisations;
- Finance directors at (head office) as well as finance managers (at subsidiaries)
- General managers overseeing the government and external relations division of the organisation;
- Logistics, Supply and Trading managers;

The total population was too wide to determine its size. This is due to the fact that it entails each oil company that operates in the five countries sampled, and even then it is difficult to identify all the potential research participants across these IOC and LOC's. Therefore, in total eighty (80) people were randomly selected, of which 57 responded (i.e. 71.3%). This was considered a good enough response rate by the researcher, especially given the high sensitiveness of information in the oil industry. In addition, accepting this response was in a spirit of "Let Go", viz. that any possibly new perspective is unlikely to significantly alter the content and quality of the research results.

4.4 Research Method

In order to accord the research a comprehensive coverage the qualitative approach was used. The choice was motivated by the nature of qualitative research, as described by various scholars, viz. that it**:**

- Describes a phenomenon in its natural settings and from the perspective of the study units;
- Provides more richness and depth to the research study, as well as flexibility;
- Data collection is conducted in a non-standardised manner, with data analysis being done via conceptualization.

Data was collected using semi-structured interview questionnaires, with open ended questions being asked. The idea was to allow participants to express in a more elaborative manner. All interviews were either personal or telephonic. In so doing, the sequence followed was**:**

- Starting with constructing the questionnaire as per Annexure 1; then
- Analysing data that emanates there from; and thereafter
- Compiling the respective chapters of this research report.

In addition, data was collected through an extensive review of existing relevant documentation such as annual reports, and minutes of leadership team meetings.

4.5 Measuring Instruments

Interviews and questionnaires, both structured and semi-structured, were used in gathering the data. They were centered on the four key factors that determine local responsiveness, viz. organisational, industrial, environmental, and control factors. And these were identified during the extensive literature review done prior to embarking on the fieldwork.

4.6 Sample Selection

There were four international oil companies selected for purposes of this research, and only two local oil companies. Justifying a bigger size is the fact that the research is more about the IOC's than the LOC's.
The choice was based on their – IOC's and LOC's - significant market share in the respective markets, which are Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe.

4.7 Data Collection

A set of 17 questions as per Annexure 1 was formulated for discussion, and recording was in the form of flip charts (for Focus Groups), hand written notes and a laptop using Excel. The latter was used the most due to its efficiency in gathering large volumes of data and when it comes to synthesizing such data.

Telephonic interviews were held with 17 people since some of the participants did not have business trip to South Africa during the fieldwork stage of the research.

4.8 Data Analysis

Data analysis is a means to add value to the extensive efforts spent during the field work. With the data having been collected, it now had to be analysed, synthesized and aligned to the research question of this study.

4.9 Limitations

In interpreting the data it should be noted that several limitations prevail. These include the following**:**

- In instances where there is a change of guard the outgoing/incoming country manager's opinion may be either overly cautious or extremely harsh. Similarly, in an organisation that has just undergone a major restructuring or is facing an imminent one opinion expressed may be somewhat coloured.

- Respondents may be reluctant to not express an opinion on an issue, and perhaps express an arbitrary opinion for the benefit of the researcher;

- Generally, the availability of quality information on matters pertaining to the African continent is a challenge;

4.10 Ethical Considerations

Research by its very nature involves confidential information. The strategic nature of the oil industry in any economy makes the sharing of information very difficult. This is particularly so in a research which entails interacting with other oil companies (i.e. competitors) too. The researcher had to exercise extra precaution. Hence the names of companies that were sampled have been concealed as far as possible. Only in the case of market share in three countries do any names appear, and this is because such data is public knowledge in these three markets.

This elevated the need to include a "Confidentiality Clause" in the covering letters sent to respondents. Refer **Annexure 2** for detail.

4.11 Conclusion

This chapter has clearly spelled out the research process that was followed by the researcher, and it was presented by a schematic diagram too. Insights were provided into how the research strategies were selected and the rationale behind the choice, and this helps the reader of this research project to understand the results that follow in Chapter 5. In other words, the knowledge about the profile of the participants enables the reader to appreciate results better.