CHAPTER 6

Conclusions and Recommendations

6.1 Introduction

The key objective of running a business is to generate better returns for and improve shareholders' wealth, and this entails running the business efficiently. Pursuing this objective becomes more daunting when there is a misalignment between the head office and its subsidiary. How then does the head office optimise its support so that its subsidiary can competitively manage its local operations in a SADC market where**:**

- There are unique dynamics that operate differently from those of a developed market;
- Today's competitive edge is not sustainable and may be outpaced by competitors, especially local oil companies;
- No one can claim to have a unique market position since the market is constantly turbulent;
- Rules of the game tend to be disobeyed by some, and they still manage to get away without sanction;
- The local oil companies, especially Independents, tend to fall under the radar screen of the regulatory scrutiny.

The findings contained in this report, if considered with perspective, could not only improve the subsidiary's competitiveness but would also help minimise the exodus of international oil companies from the fellow African markets. It is the view of the researcher that exiting some of these markets has been informed by frustration from inadequate understanding of the local market dynamics. Such frustration is largely due to the misalignment between the subsidiary and the head office. And unfortunately, these exits occur when the African continent is at a point in history when there is progress towards political stability and an improving business-friendly economic climate.

6.1.1 Organisational Factors

Organisational factors are divided into four, viz. previous experience, host government ties, business networks or counterparts, as well as market orientation. Such networks are depicted in Figure 6.1.

6.1.2 Environmental Factors

There are three micro components that make up environmental factors, viz. environmental complexity, business practice specificity, and cultural distance. In the context of the oil industry environmental complexity is the main influential element. There is a negative correlation between local responsiveness and cultural distance, which means the more diverse the target market's norms the less effective a local responsive strategy will be.

On the other hand the more complex an environment the greater is the need for local responsiveness; otherwise the organisation's competitive edge will be curtailed.

6.1.3 Industrial Factors

There are three micro components to industrial factors, viz. competition intensity, demand heterogeneity, and component localisation. All three are directly correlated with local responsiveness. It's noteworthy also that in both the regulated and deregulated market competition intensity is a key determinant of survival in the market. Cost efficiency is critical although difficult to manage when the IOC's have higher fixed costs from which a fair return for investors is expected. Ultimately profitability is central to continued growth of an organisation, as well as customer retention.

It is worth reflecting on the fact that in order to improve competitive edge of the IOC's there is a need to explore the recommendations as contained in Table 6.3.

6.1.4 Control Factors

Control flexibility is the key aspect of these (control) factors, and it has an inverse correlation with local responsiveness. That is, the more control is exercised by the head office the more difficult it will be for the local subsidiary to respond to local market dynamics. Recommendations in this regard will be limited to only two perspectives, viz. skills as well as the organisational structure.

6.2 Reflection on the Research Results

6.2.1 Stakeholders & Local Responsiveness

Local responsiveness, in the context of this research, was viewed through the lens of how the relationship between the IOC's head office and its subsidiary affects the latter's performance. That is, whether or not the head office enhances the subsidiary's ability to manage the local business in a sustainably more competitive way compared to the LOC's.

The head office has to understand the various stakeholders, as depicted in Figure 6.1, who happen to define the context of the local market. The extent to which the IOC aligns with these stakeholders' expectations will determine the subsidiary's competitiveness. That is, there is a positive correlation between head office's – via subsidiary – local responsiveness and its performance in the local market.

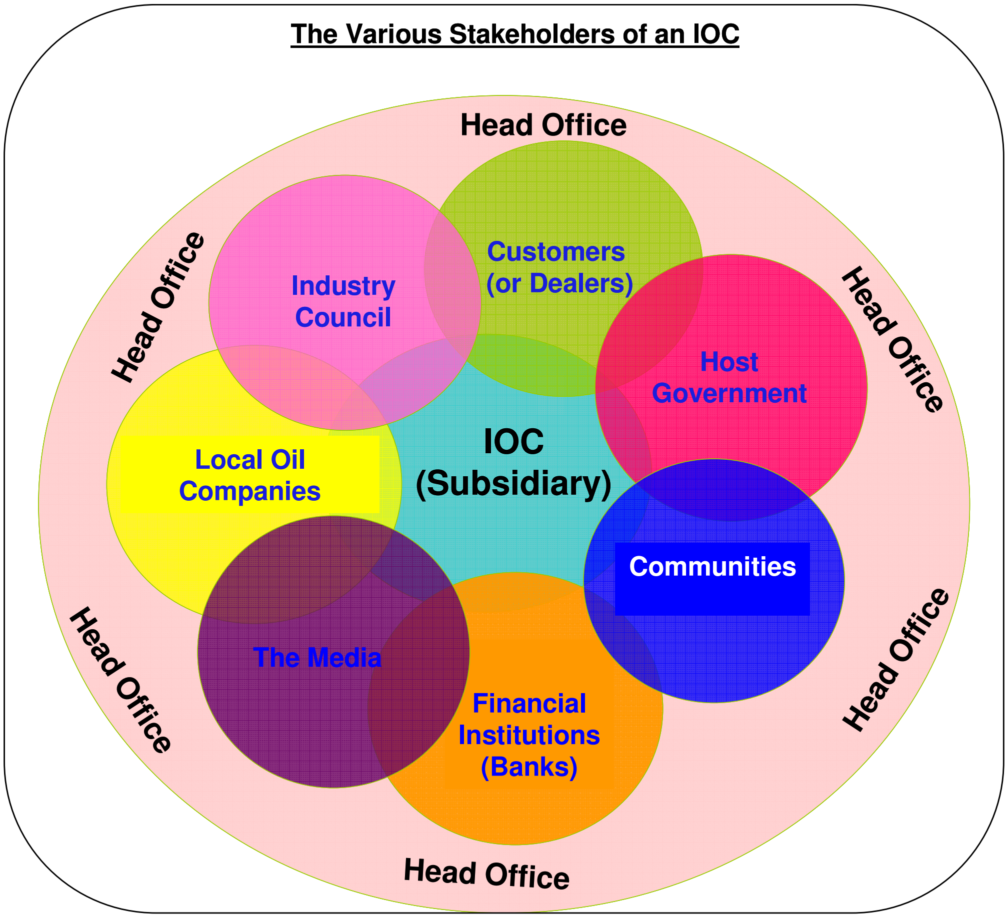

Figure 6.1

Deeper insights into these stakeholders' expectations from the IOC's may lead to a better understanding of the sources of competitive edge and effective business tactics. In order to achieve this head office must enhance its local responsiveness by providing a relevant supportive role to its subsidiary, since the latter has prime exposure to the local market dynamics. In other words, the subsidiary has to be empowered to take the necessary business decisions when running the daily operations, so as to be more competitive against fellow industry players, especially the LOC's.

It is of course clear from the research results (i.e. Chapter 5) that there is no cut and dried solution as to what the IOC's should do**:**

- On the one hand they have constraints emanating from having to balance allegiance to the head office (i.e. the group organisation) in terms of compliance to policies, strategy, and rules;

- On the other hand they have to contend with local market realities that demand local responsiveness; and these require committed corporate citizenship, deep insights into customer needs, growth in market share, and competitive advantage so as to prevent unplanned exit from the market.

6.2.2 Perspectives: IOC's vs. LOC's

The strategic decisions taken by an organisation are to a large extent influenced by how it views the risk profile of the market (i.e. country risk profile) in which it operates. On unpacking the framework by Luo (2001) on determinants of local responsiveness it emerges that the LOC's have a higher risk appetite compared to their international counterparts. The pertinent entrepreneurial spirit is linked to their flat organisational structure that facilitates quick decision making; their staff empowerment strategies whereby some of the key decisions are taken at the subsidiary level; their sourcing of product which is often done via spot basis rather than on contract terms.

On the other hand, the IOC's have a reputation to maintain, which if compromised, would dent their standing as a global corporate citizen; IOC's have to run a sustainable business whilst cognisant of expectations from the local stakeholders – especially regulatory authorities and customers.

The general view on the impact as well manageability differs between the international oil companies and their local counterparts. This contrast is depicted in Figure 6.1.

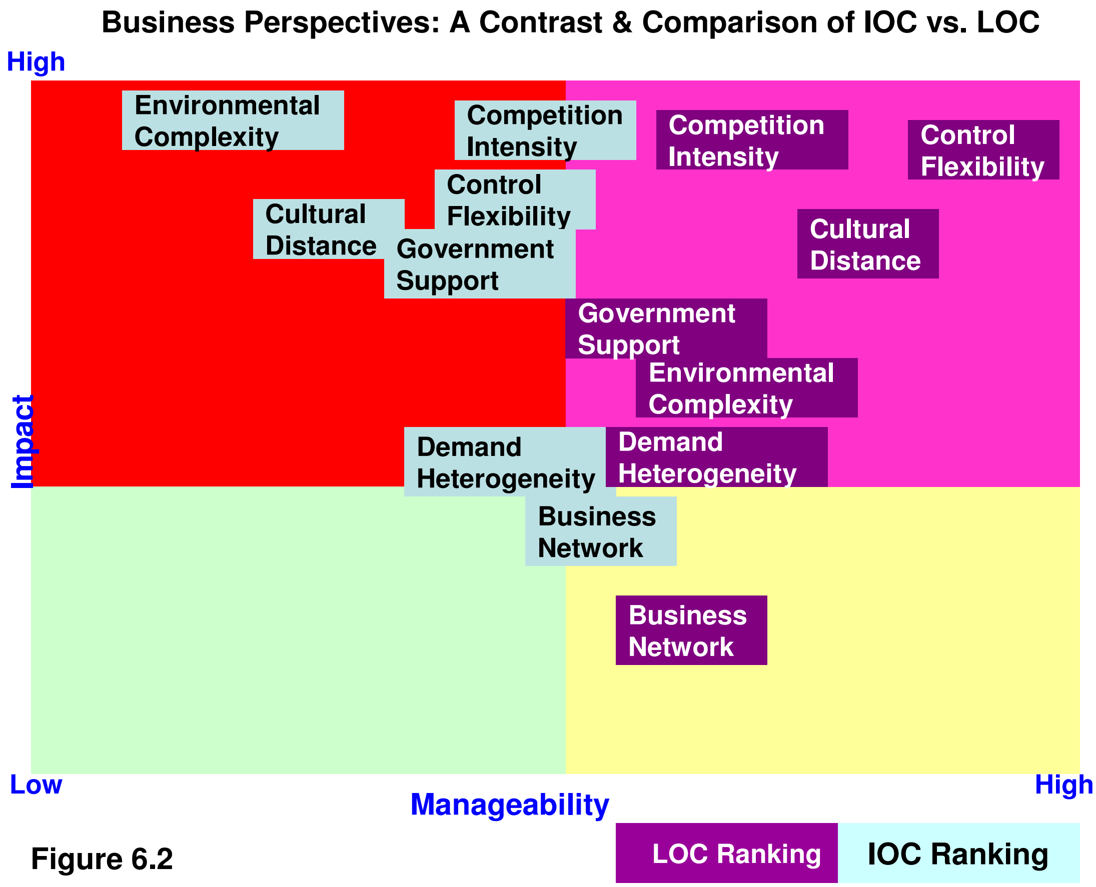

Figure 6.2

It also emerges that there is an overlap between the various factors as per Luo's framework and as such the recommendations for say organisational factors may also border on industrial factors. For instance,

- HSSE is covered under environmental factors, where it talks to the condition of trucks. Simultaneously, it falls under competition intensity, whereby the apparent overly cautious HSSE standards compromise the subsidiary's profitability since they (i.e. HSSE standards) are applied in a market that does not require them to as high a level;

- Similarly, government ties are covered under organisational factors where reference to conflict of interest is made. This is also covered under industrial factors whereby LOC's get preference when it comes to government accounts.

6.3 Recommendations

This research report has extensively covered the individual factors that affect local responsiveness, especially the literature review (Chapter 3) as well as discussion of research results (Chapter 5). At this stage only an areal view of each of the four main factors – organisational, environmental, industrial, and control - will be discussed as contained in Tables 6.1-6.4. And recommendations will only be focused on the most influential micro-components.

Table 6.1

Organisational Factors				
Component	**Impact on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Previous Experience				
Challenge: The IOC's tend to be perceived as foreigners in the local market, and this is inversely correlated with L-R of the IOC.	IOC's	Mitigate	Medium/Medium	Head office needs to listen more to views expressed by the subsidiary with regards to the various aspects of the group policies and practices that are not adequately aligned with the local market.
Challenge: Government inefficiencies in terms of processing business related requests and retrieving information negatively impacts the subsidiary.	IOC's & LOC's	Mitigate	High/Medium	Rigorous time management in other aspects of the business operations so that there is slack for regulatory processes to take their course.
Challenge: The IT package offered to the subsidiary is comprehensive, but does not cater for rapid (or even daily) price changes in a deregulated market.	IOC's	Mitigate	Medium/Medium	Allow subsidiary to acquire customised or localised IT packages.
Challenge: Subsidiary's delays in meeting deadlines for monthly management reports to head office that serve as input to senior leadership team meetings is of concern.	IOC's	Mitigate	Medium/Medium	Provide enough time when requests are made with the regulatory bodies. Alternatively, provide more resources for the subsidiary so that there's minimal disruption to its local business operations.
Challenge: - The longer the experience the stronger the IOC's relationships with various stakeholders become in the local marke, i.e. the lower the market exit potential. In the event that global strategic decisions dictate disinvesting from the local market, then animosity towards the IOC tends to develops, and this could have a rub-on effect on its operations in other markets	IOC's	Mitigate	High/Medium	Engage the various stakeholders, especially the host government on an ongoing basis, regarding not only the challenges of the market but also on policy formulation etc. This will make communicating the intention to exit much easier.

Table 6.1

Organisational Factors				
Component	**Impact on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Business network				
Host government support				
Challenge**:** There is conflict of interest in that government officials tend to have business interests in the road transport industry. This results in their lack of will to fast track govenrment investment in rail infrastructure.	IOC's & LOC's	Mitigate	Mitigate	Continue to influence via multilateral relationships. For instance, leveraging on the foreign investor attraction seminars
Challenge**:** The government's involvement in the down stream business result in their utilising oil companies stock without permission.	IOC's & LOC's	Mitigate	Medium/High	Engage the government at industry level and lobby for there to be an agreement entered into. That is, there should be a binding agreement that, inter alia, obliges the government to consult and comply with certain terms when in need of other parties stock.
Local Oil Companies (LOC's)				
Challenge:LOC's break ranks from industry forums.	IOC's & LOC's	Mitigate	Medium/Low	IOC's, through the subsidiary, must engage the LOC's not only at industry or forum level but on a personal basis as well. This should be done not only at Managing Director level but marketing, distribution, business development, and distribution levels.
Challenge**:** LOC's bend rules since they tend to fall under the radar screen.	IOC's	Mitigate	Medium/Low	There is not much that can be done with this one, except to do whistle blowing.
Challenge**:** LOC's HSSE Standards are lower than those of IOC's.	IOC's	Accept	High/Low	Since IOC's are bound by their international standards that are aimed at safeguarding corporate reputation there is not much that can be done in this regard.
Challenge**:** LOC's are more entrepreneurial, aided by their flat organisational structure.	IOC's	Mitigate	High/Low	Head office must review the delegations of authority that are granted to the subsidiary's country manager.He or she should be able to take key decisions at subsidiary level, with head office exercising largely oversight responsibilities - via telecons, video conferencing, and say quarterly visits. [And this ties in with succession planning recommendation under Control Factors]

Table 6.1

Organisational Factors				
Component	**Impact on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Business network				
Industry Forums				
Challenge**:** Industry forums are weak due to the fact that members are not prioritising them; they view them as possibly compromising their core deliverables, viz. running the business.	IOC's & LOC's	Mitigate	Medium/Medium	Involve second tier leadership as well in these forums, so that they can be able to represent the country manager or Managing Directors of the respective oil companies. This would also talk to succession planning and especially empowerment of the loal citizens.
Challenge**:** Regulatory bodies of the host country tend to discourage the formation of industry forums.They are weary of possible oligopoly that could lead to LOC's being suppresed or even extinguished from the industry.	IOC's & LOC's	Mitigate	Medium/Medium	Engage regulatory bodies by bringing lessons learned from other parts of Africa as well as other continents. This could be done with support of head office, which is better positioned to draw from their global counterparts.
Challenge**:** Tendency by especially LOC's to break ranks and engage regulatory bodies behind fellow industry players' back is of concern.	IOC's	Mitigate	Medium/Low	Engage LOC's not just at forum level, but on a personal level as well. Combined with engagement of regulatory bodies, this approach could yield positive results.
Customers or Dealers				
Challenge**:** Service station dealers tend to exit from their service stations due to waning viability, viz profitability and sales volumes.	IOC's	Mitigate	Medium/Medium	Subsiadry to sponsor a customised training programme that will be focused on the specific gaps as self-identified by the respective dealers. This training will be in complement to the standard induction programme that all new dealers would undertake.
	IOC's			Subsidary to run a competition for which, say, three winners will get full sponsorship whereas others who are also interested would get a co-sponsor.
Challenge**:** Some potential dealers are unable to participate due to the steep start-up capital of about $1.5m.	IOC's	Mitigate	Medium/Low	The head office should allow the subsidiary to lower the threshold for entry into running a service station. Given that legislation does allow for company owned service stations, then the IOC would simply take over in the event that the dealer does not cope, moving forward.

Table 6.1

Organisational Factors				
Component	**Impact on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Business network				
Financial Institutions				
Challenge**:** Credit vetting guidelines as per the IOC group Credit Policy are not fully applicable in the local market, e.g. there are no credit bureaus in most SADC markets.	IOC's	Mitigate	Medium/Low	The head office should empower the subsidiary to learn from the bank, which complements the elementary data they have with social networks of employees. In other words, employees use their "intelligence information" as apply it as part of customer credit worthiness assessment.
Challenge**:** Cash heists pose an HSSE risk at both the local business' office as well as the retail service stations. And fatalities have a negative impact on the IOC's corporate reputation.	IOC's	Mitigate	Medium/Low	Head office must empower the subsidiary to work with financial institutions on introducing garage cards and/or credit/debit cards in transacting fuel purchases. A multinational financial institution would be a better partner since, like the IOC subsidiary, it also has a head office to account to.
Local Communities				
Challenge**:** The global trend towards lowered emission levels has led to activist groups putting pressure on oil companies. This calls for added investment on emission reduction measures.	IOC's	Mitigate	Medium/Medium	The subsidiary must be empowered to prioritise its capital investments as well as community project funding in line with the local communities' needs. In other words, the head office should avoid cascading its standard portfolio of CSI programmes to all subsidiaries.
The Media				
Challenge**:** Limited knowledge about the oil industry results local market stakeholders ignoring IOC's initiatives to address issues such as HSSE, product dumping and smuggling, as well as cost build-up of product.	Both	Mitigate	Medium/Medium	Head office must provide data from its research unit and/or corporate planning department, which will serve as input into the articles to be published by the subsidiary. (This ties in with, all oil industry participants who show interest would contribute on a rotational basis).

Table 6.2

Environmental Factors				
Component	**Impacts on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Environmental Complexity				
Challenge**:** The refinery production capacity is limited to a point that it has to be supplemented with importing of refined product so as to meet the country's demand.	IOC's & LOC's	Mitigate	High/Medium	Invest steadily in the refinery infrastructure, its technology aspect especially. This, especially since it is not about expansion at this stage but more about tehnology upgrading. Once this is done the efficiency levels will be improved, and when demand begins to further increase then the burden of upgrading the refinery will not require insourmountable capital investment. This must include private-public sector partnerships.
Challenge**:** The inverse correlation between return on investment and capital investment leads to head office being reluctant to invest more capital on the subsidiary operations.	IOC's	Mitigate	High/Medium	The head office must take a long term view and factor other issues that require increased capital investment in both delivery trucks as well as loading bays (i.e. gantries). These include the HSSE risk that comes with drivers having to deliver in more locations some of which happen to be distant. So, head office must sacrifice on ROI in the short term with a view to reap better ones in the long-term.
Challenge**:** Inadequate investment in the country's infrastructure, with allocated funds being misdirected. This includes road, rail, and ports.	IOC's	Mitigate	High/Low	IOC's need to influence the government so that it can welcome pre-conditions that include "certification of completion" being produced at each stage of the road upgrades. In other words, donors should have the right to access the construction "sites" and assess if there is progress and that funds are dispersed accordingly.
				Regional integration should be exploited as an opportunity. That is, there should be close coporation between landlocked and coastal based countries. For instance, Tanzania could be used as a rail network hub that connects five countries, viz. Zambia, Zimbabwe, Malawi, Burundi, and Rwanda.

Table 6.2

Environmental Factors				
Component	**Impacts on?**	**Response**	**Impact/ Manageability**	**Recommendation**
Environmental Complexity				
Challenge: The government seeks to reconfigure the country's population density profile. It seeks to develop outlying areas of the country so as to minimise urban population density. On the other hand, IOC's prefer to service their customers from an urban hub	IOC's & LOC's	Mitigate	Medium/Low	The head office must grant the subsidiary power to explore other transport such as the barge or lake - which LOC's exploit. Although this mode of transport is unusual in RSA, but it is a common mode in SADC.
Cultural Distance				
Challenge: Expatriates who often hold a country manager position are reluctant to develop local talent; this leads to brain drain towards LOC's.	IOC's	Mitigate	High/Medium	Succession planning has to be instituted and included into the country manager's performance contract. This should be casscaded upwards to the head office based senior leader who is responsible for overseeing the subsidiary.
				The subsidiary should give an undertaking to the local regulatory bodies that it will provide progress report during the tenure of the country manager as an expatriate. And accordingly progress reporting must be done so that this process is closely monitored.

Table 6.3

Industrial Factors				
Component	**Impacts on?**	**Response?**	**Impact/ Manageability**	**Recommendation**
Competition Intensity				
Market Share				
Challenge: Reluctance by head office to adapt product specifications for lubricants and greases to suit customer requirements.	IOC's & LOC's	Mitigate	High/Medium	Head office needs to commission a market research that will include those customers that have not requested adapted specs. Perhaps they also would be happy to use the "new spec" product. Further, this links up with local blending as well as localisation issues. This would therefore have a positive impact ito IOC's reputation as a corporate citizen.
Challenge: Some of the high-volume customers are located in the outlying areas, and properly servicing them requires investing capital in those locations. But the risk of losing these customers to competition is high, viz. cost of de-branding the sites and extracting underground tanks.	IOC's & LOC's	Mitigate	Medium/Medium	The head office must sanction the usage of alternative modes of transport such as water-ways, which comes at a cheaper cost. This will also talk to the need to explore alternative sources of supply, e.g. in Tanzania product could be sourced via Kenya, which would mean a different supplier from the head office approved ones.
Challenge: Product dumping happens in collusion with Border officials who sign documentation as if product left the country whereas it turns back into the local market or country.	IOC's & LOC's	Mitigate	Medium/Medium	Engage the regulatory bodies to either install or upgrade the surveillance cameras at the Border gates. Although this is against the backdrop of budgetary constraints but it will benefit government too in terms of increased tax collection or revenues. The IOC's must lobby stronger for intensified spot audits that are performed by the regulatory bodies. This should be completed by the rotation of Border officials from the respective posts they are stationed at.

Table 6.3

Industrial Factors				
Component	**Impacts on?**	**Response?**	**Impact/ Manageability**	**Recommendation**
Competition Intensity				
Challenge: IOC's often lose government business to LOC's who are preferred for nationality reasons.	IOC's	Mitigate	Mitigate	The IOC's need to leverage on the strength of their brand (including quality) and security of supply.
				The head office must leverage its global business networks such that the subsidiary wins accounts of MNE's that operate in the local market.
Challenge: The Group Credit Policy tends to be applied without customisation to suit the local market realisties, e.g. credit vetting where there are no credit bureaus.	IOC's	Mitigate	High/Medium	The head office must empower the subsidiary to benchmark against local banks on its creative tools that include staff networks being used as a supplementary vetting tool.This could be complemented by introducing a staff incentive package for recruiting good-standing loyal customers.
Cost Efficiencies				
Challenge: The head office approved product supppliers to charge a premium that adversely affects subsidiary's profitability	IOC's	Mitigate	High/Medium	Head office needs to empower the susbidiary to source product from the most cost efficient suppliers.
Challenge: The head office sometimes does not honour its obligations to supply the subsidiary with the required quantities to meet the subsidiary's market demand.	IOC's	Mitigate	Medium/Medium	The subsidiary should insist on a sevice level agreement (SLA) with head office. This should bind the head office to deliver on agreed quantities with the subsidiary.
				The subsidiary must be empowered to source its product from cost efficient sources. This right should be reserved not just when emergencies (on the head office side) arise. But rather the head office must be the one who find alternative sources when the refinery cannot cope with product demand in RSA.

Table 6.3

Industrial Factors				
Component	**Impacts on?**	**Response?**	**Impact/ Manageability**	**Recommendation**
Competition Intensity				
Challenge: Importing lubes and greases from South Africa adversely impacts the subsidiary's profitability	IOC's	Mitigate	Medium/Medium	Head office should realise the inherent opportunity for component localisation compliance as well as the improved local responsiveness platform. That is, it would uphold the empowerment of local suppliers, reduce its "foreigner" liability, expand its customer base or increase sales volumes, and ultimately improve the subsidiary's profitability.
Challenge: The HSSE standards are overly upheld, to a point of escalating the subsidiary's cost of running the business.	IOC's	Mitigate	High/Medium	Head office must proactively identify areas in which standards could be flexible as long as they comply with the local regulatory requirements. That is, such standards should be applied with circumspection.
Challenge: The host government tends to delay the review of product prices, resulting in oil companies' operating being unfairly squeezed.	IOC's & LOC's	Mitigate	High/Medium	The engagement of government via industry forums should be strengthened. And this is a perfect opportuinity to demonstrate the need for such forums as well as for LOC's to lobby via the forums rather than breaking ranks (i.e. on their own).
Challenge: Profitability adversely impacted by the fact that the country's refinery and pipeline attracts costs regardless of whether the oil companies have used it.	IOC's & LOC's	Mitigate	Medium/Medium	Engage government to revist its costing formula; increased reliance on the borrow/loan practice. .
				Oil companie should process product nonetheless and then get into an borrow/loan transaction with fellow players in the industry. This will lower cost inefficinecies whilst also serving to pile up some stock to cater for potential product shortages in the short term future. (NB: This talks to the Stakeholder Management as per Figure 6.1).

Table 6.3

Industrial Factors				
Component	**Impacts on?**	**Response?**	**Impact/ Manageability**	**Recommendation**
Competition Intensity				
Challenge: Intercompany fees, including services that are rendered by head office staff to the subsidiary are disproportionately high.	IOC's	Mitigate	High/Medium	Head office must invest in video conferencing facilities, and minimise its staff's business trips to the subsidiary. This will minimise the risk of micro-managing the subsidiary, something that further fuels the resentment from local citizens.
	IOC's			The Board of Directors needs to be reconstituted so as to be tilted away from almost exclusively head office representatives. This will not only improve the IOC's image as a committed corporate citizen but it will also boost skills transfer & improve local responsiveness.
	IOC's			Improve component localisation. That is, head office must commit to upgarding the supporting local suppliers so that it can source some of its required equipment locally and save the subsidiary from duties & levies that are associated importing of equipment as well as products such as lubricants and greases.
	IOC's & LOC's			Instensify focus on alternative profit opportunities, i.e. expand the range of items that are sold at the dealer service stations. These would of course be items that are in addition to the core products such as fuel, lubricants, greases, and fast food franchise items.
Challenge: Product specifications differ for each country, and this inhibits economies of scale for the IOC's. As a result investment in refinery technology is often delayed.	IOC's	Mitigate	High/Medium	Head office must leverage its cross-country networks and engage the host governments to legislate cleaner fuels so that specifications are standardised across the SADC region. Such engagement should also highlight the potential boosting of FDI not only in the refinery by new co-shareholders but the car industry as well.

Table 6.3

Industrial Factors				
Component	**Impacts on?**	**Response?**	**Impact/ Manageability**	**Recommendation**
Component Localisation				
Challenge: The importation of equipment and some merchandise (e.g. staff uniforms) depresses the subsidiary's profitability.	IOC's	Mitigate	Medium/Medium	Head office must empower the subsidiary to be innovative and pro-actively seek alternatives that will limit importation to bare necessities.

Table 6.4

Control Factors				
Component	**Impacts on?**	**Response**	**Impact/ Manageability**	**Remmendation**
Control Flexibility				
Challenge**:** The HR Policy is out of sink with local market since the subsidiary has had to adopt it from head office without customisation.	IOC's	Mitigate	Medium/ Medium	The HR Policy is meant to provide consistency and used as a benchmark for decisions that impact staff group organisation-wide. However, there has to be customisation to cater for local market realities. For instance, the hyper inflation that is in Zimbabwe renders any remuneration benchmarking irrelevant.
Challenge**:** The IOC's battle to attract the right skills, and where they have them inside their retention strategies are not effective.	IOC's	Mitigate	High/Medium	A clear succession plan must be implemented such that when the expatriate country manager's term expires there would be a local national ready to take over. The development of pipeline leadership should also entail cross-postings between the susbidiary and the head office. In fact, bringing more riggor to the process would include swapping one for one, i.e. for every expatriate position there should be a local national being transferred to the head office (i.e. RSA). Although this may appear to be a costly exercise but in the long run it is not. That is, the expatriates will be repatriated on completion of their first term of working at the subsidiary. If that is deemed not feasible, then the question of empowerment and skills development may be questioned quite in time.
				Expatriates should be held accountable for developing local talent and supporting the head office's development of the pipeline leadership pool. This means they should have a clear developmental plan that will be formulated in conjunction with the head office HR.

Table 6.4

Control Factors				
Component	**Impacts on?**	**Response**	**Impact/ Manageability**	**Remmendation**
Control Flexibility				
Challenge:- Decisions relating to capital expenditure are not localised, e.g.subsidiary would lose an identified piece of land to a LOC - whilst still awaiting approval from head office.	IOC's	Mitigate	High/Medium	The country manager should be vested with adequate delegations of authority so as to run the business with a fair level of independence. If necessary, these could be benchmarked against those of LOC managaing directors. In other words the subsidiary country manager should be able to operate from the same level with his peers in the industry.
Challenge: Business plans, which talk to projected volumes, margins, and costs are driven from head office. And these hardly factor the subsidiary management's constraints.	IOC's	Mitigate	Medium/ Medium	The country manager must be given better listening by the head office. This must include an opportunity to make in-person presentation to the head office leadership team rather than just to his immediate superior.
Challenge: Inadequate sense of independence on the part of the Board impedes the effectiveness of its oversight responsibilities.	IOC's	Mitigate	High/ Low	The IOC's should not revist the composition of its Board of Directors. Ideally, the Chairman should be an external director, who is a local citizen or at least has deep insights into the local culture and market dynamics. In that way he can better support the country manager in efforts to enhance local responsiveness of the subsidiary.
				The composition of the Board must be tilted more towards external candidates with minimal members from within the subsidiary's group. In so doing, the vibrancy of debates or deliberations can be enhanced, and the Board can better hold the country manager and his team accountable in implementing the IOC's strategies.

6.4 Conclusion

"Yes you can" – President Barrack Obama's slogan during the US 2008 presidential campaign.

The Yadong Luo framework has proven effective in addressing the research question. The determinants of local responsiveness in the context of the oil industry have been well articulated. Clearly the international oil companies have a few lessons to learn from their local counterparts, on means of improving their local responsiveness edge in a foreign African market.

The subsidiary tends to find itself torn apart in terms of loyalties. On the one hand it has to remain loyal to the group organisation by abiding to head office rules, whilst on the other hand realities in the local market require intensified local responsiveness. This research has proven that although Luo's factors are intertwined and thus a trade-off by the IOC's is inevitable. And seeking to address the misalignment between the head office and its subsidiary is a delicate thread that often leads to tensions between these two, as the subsidiary gets constrained when doing business.

Sources of such misalignment have in a nutshell emerged in three all-encompassing areas, viz. HSSE standards, cultural distance, and control flexibility.

6.4.1 HSSE

The head office calls for overly high standards which are inherently costly, whilst at the same time seeking to hold local management accountable for improved profitability. The country's poor infrastructure is deemed to be a key factor that escalates the HSSE risks from the head office's perspective. That is, poor road conditions discourage procurement of large trucks, increased investment in storage and loading facilities as well as the establishment of operations in outlying parts of the country.

6.4.2 Cultural Distance

The IOC's tend to find themselves placed in a position of weakness, particularly due to the fact that the head office does not take full advantage of insights that are possessed by its subsidiary. This leads to "short-falls" in the manner in which they**:**

- Engage regulatory authorities or host government;
- Implement their human capital management strategies, and thus resulting in skills drainage in favour of the LOC's;
- Expand a shrinking market share that is compounded by both the steep capital entry barriers and/or skills shortage on existing dealers who tend to close their service station operations;
- Fail to appreciate the unorthodox means that are required when vetting new customers and/or having to do business without a written contract;
- Profile potential suppliers of product and necessarily according the subsidiary adequate powers to choose what they deem to be optimal sources of product suppliers.

6.4.3 Control Flexibility

The manner in which head office exercises its control over the subsidiary is often not properly calibrated, and inherently stifling to the subsidiary. Chiefly, this is due to the Board of Directors that tends to lack independence and deeper insights into the local market. Inherently**:**

- The quality of discussions that take place inadequate, and related deliberations not fully supportive of improved local responsiveness;

- The subsidiary is stifled by the strongly hierarchical organisational structure that leads to missed business opportunities and thus placing the subsidiary at a disadvantage compared to the high flexibility of the LOC's flat organisational structure. For instance, the country manager's delegations of authority tend to lack the empowerment that supports spontaneous key decisions when the situation calls for such;

- Despite all of these concerns both parties (i.e. head office and its subsidiary) are naturally aligned on the ultimate objective of increasing the shareholder wealth through improved profitability. The main challenge, however, is the "how", i.e. means of achieving this common objective.

Therefore, the critical multi-faceted question that IOC's face is**:**

- How does one compete in a market where there are essentially "no rules"; does the international oil company break or bend these rules and stake its reputation; does it stick to the rules and risk being extinguished from the market?

- Could it be that the recent exits from SADC market by the IOC's are the outcome of inadequate ability to adapt to local market conditions, despite their long experience in these markets; do IOC's truly remain foreigners?
- Looking outside the industry, how did MTN manage to turn Nigeria from the no-go zone to its key market? There indeed are critical be lessons to be learned by the oil industry regarding local responsiveness in Africa, which could be implemented in SADC.

Indeed the international oil companies can improve their local responsiveness without necessarily compromising their standards, good corporate citizenship and shareholders' return on investment. And this research journey, as summarised in Table 6.5, confirms this view.

Yes they can!

Table 6.5

Assessment of Research Journey			
Ref.	**Page No.**	**Research Sub-problems**	**Outcome of the Research**
1.4.1	11	Is the subsidiary's performance enhanced in executing the head office rules?	No, it is not. Head office's loyalties lie more with the group organisation rather than the respective subsidiaries. This indicates global integration and caution regarding corporate reputation.
1.4.2	11	Is the subsidiary responsive enough to the realities of the local markets in the SADC region?	No it is not, this is due to its obligation to subscribe to group standards and policies as well as the fact that subsidiaries are mistakenly regarded as "one basket" by the head office.
1.4.3	11	Does the head office understand the realities of the oil industry in the local markets of the SADC region?	No, it largely does not. This is mainly due to its organisational structure, the Board composition, as well as related delegations of authority.
1.5		**Research Question**	**Outcome of the Research**
	11	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?	The four factors that are suggested by Luo (2001). These are organisational, environmental, industrial, and control factors, respectively.
1.6		**Research Objectives**	**Outcome of the Research**
1 .	11	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	The four factors that are suggested by Luo (2001). These are organisational, environmental, industrial, and control factors, respectively.
a.	11	Theory from accredited academic literature; and	Achieved, as per Chapter 3.
b.	11	Industry learnings from industry publications with specific focus on the oil industry.	Achieved. Refer to List of Refrences as well as the criteria used for selecting research participants.
2 .	12	To validate and enrich these underpinning factors through interviews with Oil Industry stakeholders	Achieved. Refer to Chapter 5 (Research Results).
3 .	12	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.	Achieved. Refer to Chapter 6 (i.e. Conclusions and Recommendations).

6.5 Future Research

This research project has focused on how international oil companies can improve their competitive performance. It would be beneficial in future to develop better insights by taking the LOC's perspective on how they (i.e. LOC's) perceive their international counterparts.

- Do LOC's really bend the rules? If indeed so, how does this reconcile with their strong sense of nationalism?

- Do the supposedly higher standards (e.g. HSSE) that are maintained by international companies really apply in the SADC region; do they offer an African solution? Does advanced driver training apply in a country which does not have even robots, no speed traps, and no mandatory wearing of safety belts?

It certainly will be a worthwhile research.

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Annexures

Annexure 1

No.	Survey Questionnaire					
	Background					
1 .	In which of these 5 countries does your organisation operate in SADC Region?	Malawi	Mozambique	Tanzania	Zambia	Zimbabwe
2 .	In which areas of the value chain does your organisation engage?	Refining	Transporting	Storage Facilities	Marketing	
	Additional comment, if any:					
	Organisational Factors					
	Previous Experience:					
3 .	In what ways does previous experience within the local market impact your business?					
	Additional comment, if any:					
	Host Government Support					
4 .	How does the host government contribute towards the creation of a business-friendly economic climate?					
	Additional comment, if any:					
	Business Network					
5 .	Describe the manner in which business networks operate in your market, viz. both within the oil industry and across industries.					
6 .	What are the benefits of these networks in your market?					
7 .	What are the challenges faced by business networks in your market?					
	Market Orientation					
8 .	What proportion of your product output is exported outside the country?					
	Additional comment, if any:					

Environmental Factors		
	Environmental Complexity	
9 .	In terms of the local market what impact does infrastructure have on your business?	
10 .	How do aspects that are unique to the SADC oil industry impact the sustainability of your local business?	
11 .	In what ways does culture play a role in the way business is conducted in your local market?	
	Additional comment, if any:	
Industrial Factors		
	Competition Intensity	
12 .	How do competitive factors impact your market share in the local SADC market's oil industry?	
13 .	How can cost-efficiencies be improved in your organisation?	
	Additional comment, if any:	
	Demand Heterogeneity	
14 .	In what ways is demand along respective key customer segments affected in your local market?	
	Component Localisation	
15 .	Does the government impose any regulations on component localisation?	
	Additional comment, if any:	
Control Factors		
	Control Flexibility	
16 .	How does your organisational structure impact your business in relation to headquarters?	
	Additional comment, if any:	
	Board of Directors	
17 .	In what ways does your Board of Directors impact the interaction between head office and your local business (i.e. subsidiary)?	
	Additional comment, if any:	

Annexure 2

SBL
GRADUATE SCHOOL OF
BUSINESS LEADERSHIP
UNISA

Sikhuthali Nyangintsimbi
MBL Student
Unisa School of Business Leadership

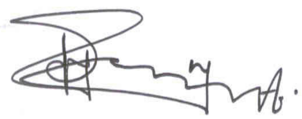
Dear XXXXXXX

Research Project on Managing the Subsidiary within rules of the head office – a case for the oil industry in the SADC Region

I am final year student at the Unisa School of Business Leadership. In order to complete my Master of Business Leadership studies I have to submit a comprehensive piece of research. The research topic that I have chosen relates to the interaction between the head office and its subsidiary.

The value of your contribution will benefit various stakeholders, viz. shareholders' return on investment, customer service, government whose social investment initiatives together with foreign direct investment objectives will be realised, etc.

I therefore request your assistance by completing the attached questionnaire. It would not take you more than 25 minutes to complete. Please return the completed questionnaire to me at sikhuthali@hotmail.com . I undertake to abide by the confidentiality conditions that you may impose.
Thanking you in anticipation.



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