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Extractive Industry in Kenya: A Case of National Oil Corporation**

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A hand is pointing its index finger towards a glowing, semi-transparent oval. Inside the oval, the word "Strategy" is written in a large, dark font. The background is dark blue with concentric light blue circles emanating from the center where the hand is pointing. A red and blue horizontal striped banner runs across the top of the oval.

Strategy

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^{1*}Prof. David Minja,

Department of Public Policy and Administration, Kenyatta University
P.O. Box 184-00200, Nairobi, Kenya

*Email: minjad11@gmail.com

²Lillian Waweru,

Department of Business Administration,
Daystar University

Abstract

Purpose: This study sought to evaluate the effects strategic partnerships have on building capacity of firms in oil and gas industry in the emerging frontier. Theory and practice suggest that firms with low capacity to exploit oil and gas can venture into strategic alliances with well established firms to enable them acquire skills, competences and capital required to develop their capacity. The theory guiding this study was the Resource Based View of the firm. The objectives of this study were: To establish whether strategic partnerships were being used by National Oil Corporation of Kenya to develop its oil and gas extractive capacity; To examine the impact of strategic partnerships in building organizational capabilities; and to identify any practical lessons that could guide other oil and gas emerging frontiers.

Methodology: The research adopted a descriptive study and used a case study which was essential for acquiring in- depth information that was required for this study. The target population was the employees of the company working in the Upstream Department who were picked using a simple random sampling technique.

Results: The study found out that strategic partnerships had an impact on brand visibility and growth, enhancing financial capacity, technological capacity and enabling knowledge transfer.

Contribution to practice and policy recommendation: The study concludes that emerging oil and gas frontiers should adopt strategic partnerships to build their capacity.

Key words: Strategic Partnerships, Capacity Building, Oil and Gas Frontier

1.0 Introduction and background

Kenya's oil industry is an emerging industry and needs to proactively engage in building capabilities required for the growing industry. The oil and gas industry is characterized by the following attributes: capital intensive nature, high profit margins and high technology requirements (Hamidu, 2012). A strategy that is often used by emerging economies is the one of strategic partnerships. The need to invest in strategic partnerships as a cost effective strategy to grow capacity has been proven to be extremely beneficial in the transfer of expert knowledge and technologies (Das & Sheng, 2000).

Strategic partnership is a relationship between two or more entities who agree to pool operational resources whether financial, human or material (both tangible and intangible) in order to jointly execute a project or contribute their distinctive capabilities towards achievement of a common objective that translates into mutual benefits (Ozigbo, 2008). A partnership must be formed with the ultimate goal of independence in mind. Gamble & Peteraf (2015) observe that for strategic partnerships to be beneficial, a company must ultimately cease dependence on the alliance partner and develop its own resources and capabilities in areas where internal strategic control is pivotal.

Lack of local capacity to supply the skills, goods and services required within the oil and gas sector in Kenya is a hindrance to investment by local stakeholders. The development of a successful petroleum sector is not about producing petroleum alone, but investing in capacity to manage its impacts for sustainable development for posterity (Mwangi, 2014). It becomes an effort in futility to implement Local Content regulations and laws if local investors lack capacity to supply the skills, goods and service required by the industry. It therefore, becomes necessary to import these skills, goods and services resulting in loss of much needed foreign exchange.

Akpata, Bredenhann and White (2013) name poor infrastructure and an uncertain regulatory framework as top two challenges identified by new emerging players/markets, especially in Uganda, Ghana, Tanzania, Nigeria and Kenya. Owing to lack of skilled expertise, technical capabilities and the huge financial requirements to invest in the oil and gas industry, National Oil Companies (NOCs) around the world are unable to work alone to develop their national oil and gas reserves. For instance, Uganda made an oil discovery in 2006, but has been unable to go into production owing to capacity challenges and internal disputes over issues such as taxation and whether to build an oil refinery or rely on shared infrastructure among other planning challenges (Tully, 2015).

Investing in strategic partnerships is a cost effective avenue to grow the capacity required locally in order to benefit from the opportunities available right from inception of the industry (Das & Sheng, 2000). Kenya is an emerging industry and can proactively equip herself with the capabilities required for the growing industry using strategic partnerships without compromising her competitiveness or the quality of its population as is the case in Nigeria's population, in the gas and oil regions (Balouga, 2012).

It has been argued that focusing on strategic partnerships cures an entity's own weaknesses and threats to traverse a market alone by utilizing another's strengths. Evaluating the strengths, weaknesses, opportunities and threats of a company is paramount to draw accurate conclusions on the company's current situation and helps translate these into strategic actions (Gamble & Peteraf, 2015). For foreign investors such as established International Oil Companies (IOC), cooperation with NOCs reduces political risk and buys the IOC goodwill with the host government when their interests become aligned (James, 2011).

Strategic partnerships equip local indigenous companies to break entry barriers. Some of the benefits include; sharing capital investment required, sharing technology, mitigating effects of inexperience, accessing reliable local suppliers, risk reduction, new market entry, new distribution channels, brand recognition among many others (Strickland, 1990).

The form of partnership entered into may be formal or informal and may entail a party ceding ownership rights or parties may agree to maintain individual autonomy. Gamble and Peteraf (2015) describe a strategic partnership as a strategic collaboration for joint contribution of resources, shared risk and mutual dependence. Strategic partnerships may be horizontal or vertical where horizontal partnerships are aimed at external expansion while vertical scope involves expansion of internal value chain activities.

It is imperative that strategic partnerships are aligned to the long term vision of the organization. Examining the suitability of the desired form of partnership and compatibility with the partner of choice is of key importance. Gamble and Peteraf (2015) note strategic partnerships last longer when the strategic partners are not direct competitors, in order to develop mutual trust and continue to access incremental benefits in the long term from the partnership.

Strategic partnerships are aimed at diversifying opportunities, capabilities and building dynamism through utilization of each party's distinct capabilities or resources. Strategic alliances are proven to be an efficient and cost effective resource sharing mechanism targeted towards building core competencies and competitive advantage within an existing market (Ungson & Wong, 2008).

Local stakeholders are continually looking for ways to participate in the value chain. Coordinating both local and foreign players through strategic partnerships enhances implementation of policy to generate value that contributes to the long term economic growth of an emerging economy (Hackenbruch & Pluess, 2011).

Hamidu (2012) observes that there is need to promote business that benefits local stakeholders of the country that is seeking for strategic partnership. The researcher gives an example of the partnership between Ghana National Petroleum Company (GNPC) and Tullow Oil (Ghana) where Tullow Oil has invested in corporate social responsibility initiatives such as the Tullow Group Scholarship Scheme which offers academic scholarships in areas that are relevant to the industry.

1.1 Statement of the Problem

The discovery of oil and gas prospects in Kenya in 2012 and subsequent establishment of local content regulations which will make it mandatory to prioritize utilization of local skills, goods and services within the oil and gas sector has created a high demand for specialized goods, skills and services locally. Inability to adapt to changes in an industry owing to capacity challenges is an issue (Ijose, 2010). Kakonge (2013) agrees that African countries

have serious capacity challenges when it comes to upstream operations, namely exploration, drilling and the development of wells, and production.

Incapacity of the local stakeholders to exploit opportunities owing to the lack of skills, capital and technological capacity is a handicap in Kenya as an emerging frontier in oil and gas (Akpati, Bredenhann & White, 2013). Owing to the high costs of building capacity, Kenya sought funding from the World Bank through the Kenya Petroleum Technical Assistance Project to fund capacity building and technical assistance initiatives, training programs, and the development of a legal and institutional framework (Mwangi, 2014). Such a move increases Kenya's debt portfolio and encumbers its future oil and gas revenues hence the need to utilize cost effective measures such as use of strategic partnerships.

Strategic partnerships address this by bringing in the much needed resources including assets, finance, or knowledge, alternative perspectives on the issues and contacts from local community participants or the private stakeholders (Mcquaid, 2000). Previous studies have focused on the inability of emerging economies to exploit opportunities in the oil and gas sector and strategies that may be implemented to raise much needed capital for this capital-intensive industry. The role of strategic partnerships has not been given much weight especially as it relates to building capacity in emerging oil and gas frontiers in Africa. This study therefore, sought to investigate the effectiveness of strategic partnerships and whether they are cost effective measures that proactively build capacity in emerging oil and gas frontiers in an industry that is undeveloped like the one in Kenya.

1.2 Objectives of the Study

- i. To establish whether strategic partnerships were being used by National Oil Corporation of Kenya to develop its oil and gas extractive capacity;
- ii. To examine the impact of strategic partnerships in building organizational capabilities;
- iii. To identify any practical lessons that could guide other oil and gas emerging frontiers.

2.0 Theoretical Framework

This research was guided by the Resource Based Theory with a focus on the value created as a result of pooling together resources from different organizations by way of a strategic partnership. Strickland (1990) notes that the resource based view leverages competitive advantage on the effective integration of partner firms to the others' valuable resources. The theory advances that other environmental and industry structure characteristics are secondary to the firms' access to resources. Olavarrieta and Ellinger (1997) observe that resources and distinct capabilities held by a company determine competitive position in the market.

Das and Sheng (2000) state that the resource based theory of strategic partnerships has four essential components: rationale behind formation, how formation will be done, structure of the partnership and the actual formation. The value created by integration and alignment of resources in the long run takes prominence over associated transactional costs. Blackwell and Eppler (2014) highlight the importance of matching internal strengths to external opportunities in order to exploit opportunities in the business environment.

2.1 Formation of Strategic Partnerships

Strategic partnerships expedite the development of new technologies and specialized competencies (Gamble & Peteraf, 2015). This results in massive time and cost savings for

benefiting strategic partners. Distinct competencies must be difficult to imitate in order to be a useful strategic tool to enhance profitability (Blackwell & Eppler, 2014). A firms' inputs (sourced externally), assets (proprietary interests owned) and capabilities are collated in the strategic partnership and the resources contributed can be either tangible or intangible (Olavarrieta & Ellinger, 1997). Blackwell and Eppler (2014) confirm that not all the strengths of a firm would be of importance to the strategic partner hence the need to have strategic direction when seeking to form strategic partnerships that boost the entity's strengths.

Stuart, Walker and Minzner (2011) describe the strategic partnership formation process beginning with the initiation phase where potential partners are evaluated to analyze suitability and synergy, after which a suitable strategic partner is selected, ending with the actual formalization and creation of the strategic partnership. The planning phase follows the inception phase where the rules of engagement for the alliance partners and the projects anticipated for the partnership are detailed and agreed upon. Implementation follows thereafter. Wohlsetter, Smith and Malloy (2005) indicate that the success of a strategic partnership is premised on its construction and the progressive milestones set at each phase.

3.0 Research Methodology

The research adopted a descriptive study and used a case study which was essential for acquiring in- depth information that was required for this study. The study sought to investigate whether National Oil Corporation has utilized strategic partnerships and to establish whether the organization has enjoyed some benefits resulting from such partnerships. The research sought to establish the linkage between strategic partnerships and enhancement of financial, technical and skills capabilities at National Oil and the effects on the brand perception of the company.

In this research, the population comprised of the employees in the Upstream Department of National Oil Corporation of Kenya staff who are 231 according to Human Resource Departmental records as at December, 2014. The sample size comprised of 59 individuals out of 231 staff which accounted for 25% of staff engaged at National Oil Corporation of Kenya. Individuals who formed this sample were picked using a simple random sampling technique. Mugenda and Mugenda (2003) note that a sample size of between 10% to 30% of the population is a good representation of the target population.

4.0 Results and Discussions

4.1 Utilization of Strategic Partnerships

The research sought to establish the extent to which strategic partnerships were utilized in developing the capacity of National Oil Corporation in Kenya. Results findings were presented in figure 1.

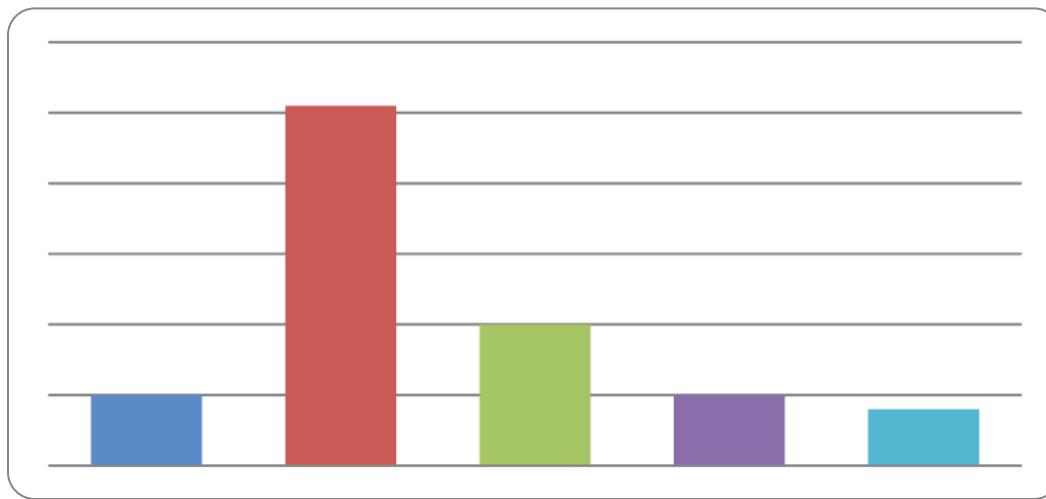


Figure 1: Extent of impact of strategic partnerships on capacity at National Oil Company in Kenya

According to the findings, it was established that 10% of the respondents indicated that utilization of strategic partnerships in developing local capacity was to a very great extent, 51% indicated a great extent, 20% said indicated average, and 10% said they had little extent while only 8% indicated that strategic partnerships had no extent at all. These findings implied that strategic partnerships are key strategic initiatives used by National Oil Company in Kenya to develop its capacity. It can therefore, be inferred that strategic partnerships had resulted in enhanced internal capacities which confirmed that they indeed impacted on the company positively. This confirms Ungson and Wong (2008) assertion that Strategic partnerships are proven to be an efficient resource sharing mechanism targeted towards building core competencies required for competitive advantage within an existing market.

4.2 Impact of Strategic Partnerships

The research sought to know whether strategic partnerships had any impact on brand visibility and growth, enhancing financial capacity, technological capacity and in enabling knowledge transfer. Results were presented in table 1.

Table 1: In-house capabilities developed as a result of strategic Partnerships

	Yes/Frequency	Percentage (%)	No/Frequency	Percentage (%)
Technological Capabilities	41	84	8	16
Internal Processes & quality standards	40	82	9	18
Financial Capability	39	80	10	20
Skills & Competencies	33	67	16	35
Brand Recognition of the Company	31	63	18	37

From the table 1 above, use of strategic partnerships was seen to be a key strategy in building brand image, technical and financial capabilities, internal processes and competencies. This was reported to have been most effective in the upstream department. According to the results, majority of the respondents indicated that technological capabilities, internal

processes & quality standards, financial capability, skills & competencies and brand recognition of the company had improved the in-house capabilities particularly in the upstream department as shown by 84%, 82%, 80%, 67% and 63% respectively.

The strategic plan also confirmed that most of the strategic partnership ventures undertaken by the Corporation had been undertaken during the 2013-2016 strategic plan period. This was evidenced by the dates when contractual agreements formalizing the strategic partnerships were executed.

Table 2: Skills Capacity Acquired

	Yes/Frequency	Percentage (%)	No/Frequency	Percentage (%)
Certified academic skills	38	78	11	22
Additional practical skills	43	88	6	12
Industry Exposure	41	84	8	16

The table above depicts the benefits that respondents individually acquired from engagement in strategic partnership ventures. According to the study a majority of 88% of the respondents personally acquired additional practical skills by engaging in strategic partnership ventures, 84% of the respondents acquired industry exposure while 78% of the respondents acquired certified academic skills from engagement in strategic partnerships.

Operational Efficiency & Brand Exposure

Table 3: Financial Capacity & Brand Exposure

	Strongly Agree (%)	Agree (%)	Unsure (%)	Disagree (%)	Strongly Disagree (%)	Total %
Increase operational efficiency	18	70	7	3	2	100
Increase exposure and global recognition	30	69	1	0	0	100
Make National Oil vulnerable to manipulation by more experienced companies?	59	25	9	6	1	100
Enhance National Oil's financial capacity to undertake capital intensive projects?	26	54	14	3	3	100

The research also established the specific capabilities that National Oil acquired as a company. According to the findings, majority of the respondents were in agreement that strategic partnerships had resulted in; increased operational efficiency, increased exposure and global recognition hence enhancing National Oil brand. It had also led to enhanced National Oil's financial capacity to undertake capital intensive projects as shown by 70%, 69%, and 54% respectively in table 3 above. Majority of the respondents(84%) seemed to agree that strategic partnerships would make National Oil more susceptible to manipulation by more experienced companies. To discourage this, Hamidu (2012) observes that it is

important to ensure a strategic fit of partners by meshing individual interests and resources without overshadowing the lesser party.

Table 4: Internal Capacity Developed & Quality Internal Processes.

	Yes/Frequency	Percentage (%)	No/Frequency	Percentage (%)
Internal Processes & quality standards	36	73	13	27
Brand Recognition of the Company	33	67	16	33
Financial Capability	31	63	18	37
Technological Capabilities	30	61	19	39
Skills & Competencies	29	59	20	41

The study required the respondents to indicate proprietary interests National Oil Corporation has been able to acquire as a result of the strategic partnerships undertaken. According to the findings, majority of the respondents indicated that proprietary interests the Corporation had been able to acquire as a result of the collaborative ventures undertaken included: Internal Processes & quality standards, Brand Recognition of the Company, Financial Capability, Technological Capabilities, skills & competencies as shown by 73%, 67%, 63%, 61% and 59% respectively in table 4 above.

5.0 Conclusion and Practical Implication of the Study

A population that lacks skills, competence and capability to participate in the value chain in the oil and gas industry leads to importing the skills, competence and capabilities required to respond to the demands within the industry. For instance, Nigeria has a reputation of being the largest oil producer in Africa but its population remains the poorest and most technologically challenged.

The study, therefore, concludes that strategic partnership is a key strategy that emerging oil and gas industries can adopt to build their capacities without compromising their independence or competitiveness. It is a cost effective strategy with tremendous results. Countries, therefore, classified as emerging oil and gas frontiers can apply this strategy to build their technical, financial and skills capabilities without being heavily indebted or manipulated by the industry leaders

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