Strategic Alliance and Local Content Development of Oil and Gas Producing Companies in Rivers State, Nigeria

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ABSTRACT
This study examined the relationship between strategic alliance and local content development of oil and gas producing companies in Rivers State, Nigeria, the study adopted a cross-sectional survey research design to obtained responses from the oil and gas producing companies in Rivers State, Nigeria, using Krejcie & Morgan table, 1970 to determine the sample size. After data cleaning, 108 respondents were finally used for data analysis with the aid of statistical package for social science version 25.0. The regression analyses were used to test the research hypotheses. The empirical results showed that there is a variation in the relationship between strategic alliance and local content development in oil and gas producing companies that were studied. Specifically, the findings revealed that strategic alliance had a strong and positive significant relationship with the two measures of local content development such as: skill and technological development. The study thus, concluded that a strategic alliance had a positive and significant influence on local content development. Therefore, the study recommend that oil and gas producing companies should increase partnership that supports and facilitates learning and tacit knowledge transfer in vertical and horizontal strategic alliances and partnerships which would facilitate understanding, cooperation and successive implementation of ideas and systems by the organization.
Keywords: Strategic Alliance, Local Content Development, Technological Development, Skill Development

INTRODUCTION
Organizations seeking alliances always look for partners who will help them create value for customers at lower costs in the competitive market. The Nigerian oil and gas sector have been described as being technological oriented and input specific with a predominance of foreign technology and foreign inputs and with poor alliance to link the other facets of the economy. In line with this, Gbegi and Adebisi (2013) argue that the success of businesses and organizations in the current times depends to a large extent on how they are able to develop local talent, build a cost-effective local supplier base and to provide sustainable socio-economic benefits to their host communities and the regions where they operate. The Nigerian National Petroleum Corporation (NNPC) defines local content as the quantum composite value added or created in the nation's economy through the utilization of nation's human and material resources for the provision of goods and services to the petroleum industry (Gbegi & Adebisi, 2013).

The emphatics as obtained from the above definitions are premised on a clear working relationship between foreign companies and their indigenous counterparts in such a way that is beneficial to both parties (foreign companies and local or indigenous companies) with indigenous organizations acquiring the required development for their staff and technologies which in turn transfers and the foreign companies obtaining support, cooperation, and a favourable operational relationship.

According to Channon (1999) strategic alliances are formed when two or more firms join together to achieve certain goals that they agree upon. Jarillo, (1988) further pointed out that firm entering into

strategic alliances share resources to achieve superior performance and increase their reputation and skills development since they have access to a pool of resources and competencies that other competitors did not have as individuals.

However, with the growing presence of oil and gas Multi-nationals companies such as SHELL, AGIP, EXXON, TOTAL etc. within the country; which according to Hansen, Pedersen and Petersen (2009) is principally geared towards the exploitation of the natural resources and abundant cheap labour pool; the constant competition, frictions and rift between indigenous companies and foreign companies, and the seeming unequal relations resulting from the system; the need to re-evaluate operational working relations from a more strategic angle arises (Hamilton, 2011; Vaaland, Soneye & Owusu, 2011).

The core of the Nigerian content policy is to compel oil and gas multinationals to utilize the indigenous material and human resources with the aim of building local capacity, increasing local participation, dissuade capital flight, increase contribution of oil and gas to Gross Domestic Product (GDP), partnership businesses and facilitate backward and forward linkages. However, it is generally observed by industrial watchers that NNPC-NCD was not able to meet its stated target of 45% content by 2006 and was also unable to meet the 2010 stated target of 70% local content. Available data shows that NNPC-NCD has only been able to attain local content value of between 30% and 35% in 2009 (Mbamalu 2009). In spite of four years of initiating Nigerian content policy, there is still high foreign content in oil exploration and production, servicing in Nigeria. In light of the identify gap from previous research, therefore, this research is carried out to fill the gap in the literature which aim to examine the effect of strategic alliance on local content development between indigenous and international oil and gas producing companies in Rivers State, Nigeria. It also seeks to provide answers to the following research questions:

1. Does strategic alliance affect technological development of oil and gas producing companies in Rivers State, Nigeria?
2. Does strategic alliance affect skill development of oil and gas producing companies in Rivers State, Nigeria?

LITERATURE REVIEW
Theoretical Foundation
The study adopts knowledge-based theories (Grant and Baden-Fuller, 2004) and discusses each variable extensively as well as their relationships. The knowledge-based literature identifies two conceptually distinct dimensions of knowledge management. First, those activities that increase an organization's stock of knowledge what March (1991) refers to as 'exploration', and Spender (1992) calls knowledge generation. Second, those activities that deploy existing knowledge to create value what March (1991) refers to as 'exploitation', and Spender (1992) calls knowledge application. In relation to strategic alliances, this distinction between knowledge generation and knowledge application corresponds to a key distinction in the ways in which knowledge is shared among alliance partners.

Knowledge generation points to alliances as vehicles of learning in which each member firm uses the alliance to transfer and absorb the partner's knowledge base. Knowledge application points to a form of knowledge sharing in which each member firm accesses its partner's stock of knowledge in order to exploit complementarities, but with the intention of maintaining its distinctive base of specialized knowledge. However, the usefulness of knowledge-based view to the analysis of strategic alliances has been limited by cursory analysis of the role of knowledge in alliance relationships and the widespread presumption that the goal of alliances is to facilitate organizational learning. This emphasis on learning the acquisition of knowledge fails to recognize the central attribute of the strategic alliance as an organizational mode that can reconcile the benefits of knowledge specialization with those of flexible integration. The purpose of this paper is to present a theory of strategic alliances that focuses upon the role of strategic alliances, not in acquiring, but in accessing the knowledge resources of other firms for the development of local content.

Strategic Alliance
Strategic alliance is an agreement between two or more players to share resources or knowledge, to be beneficial to all parties involved. It is a way to supplement internal assets, capabilities and activities, with

access to needed resources or processes from outside players such as suppliers, customers, competitors, companies in different industries, brand owners, universities, institutes or divisions of government (McGovern and Brian, 2004). A strategic alliance is an organizational legal construct wherein "partners" are willing-in fact, motivated-to act in concert and share core competencies. To a greater or lesser degree, some alliances result in the virtual integration of the parties through partial equity ownership, through contracts that define rights, roles and responsibilities over a span of time or through the purchase of non-controlling equity interests. Eventually, many result in integration through acquisition (Thompson, Steven and Kim, 2011).

Strategic alliances are voluntary agreements between independent firms to develop and commercialize new products, technologies or services (Gulati, 1998). The use of strategic alliances has grown dramatically over the last two decades, particularly in high-technology industries (Hagedoorn, 1993). Commensurately, allying has become critical to the success of high-tech entrepreneurial ventures (Powell et al., 1996). Recently, scholars have proposed that firms differ systematically in their alliance management capability and that these differences may be a source of firm-level competitive advantage (Dyer and Singh, 1998). International strategic alliances can therefore be considered as voluntary, long-term, contractual, cross-border relationships between two firms, designed to achieve specific objectives through collaboration (Brouthers & Bamossy, 2006). Because of their ability to capitalize on cross-border opportunities, ISAs have grown increasingly popular, yet their failure rate remains high (Hagedoorn, 1993).

Wisnieski (2001) observed that the resource dependency literature suggests that alliances often represent one of three forms. The first alliance is a horizontal alliance between organizations that compete for the same resources, such as customers or suppliers and usually represent exchanges in one direction. In this arrangement, the organizations exchange or pool their resources toward some goal, such as research consortia or trade unions. The second is a vertical alliance which is an alliance between a firm and those organizations supplying inputs or using its outputs, such as suppliers, buyers, financial institutions, or the labor pool. Vertical alliances also usually represent exchanges in one direction. The third type of alliance is reciprocal, where firms exchange both inputs and outputs and the exchanges flow in both directions. In reciprocal alliances, firms exchange ideas, people and equipment, share lab space and pass designs back and forth such as in joint R&D projects.

Local Content Development

The Nigerian Oil and Gas Development Law 2010 defines local content as the quantum of composite value added to or created in Nigeria through utilization of Nigerian resources and services in the petroleum industry resulting in the development of indigenous capability without compromising quality, health, safety and environmental standards. It is framed within the context of growth of Nigerian entrepreneurship and the domestication of assets to fully realize Nigeria's strategic developmental goals. The scheme, which has the potential to create over 30,000 jobs in the next 5 years, is geared to increasing the domestic share of the $18 billion annual spending on oil and gas from 45% to 70%, in addition to enhancing the multiplier effects on the economy, through refining and petrochemicals.

In addition, every multinational oil company in Nigeria must place a minimum of 10% of their annual profit in Nigerian banks. Also at least 50% of the asset of any company seeking to execute oil and gas contract in Nigeria must be domicile in Nigeria (Menas, 2008). So it is more than a business compliment and it is part of obligation that governments force companies to ensure it in their projects. Second, nowadays, local content is considered as a corporate social responsibility in emerging and undeveloped economies. For instance, Statoil enjoys a positive reputation among NGOs and IOCs alike as one of the more responsible operators in Nigeria (Menas, 2008).

One of the instruments currently being adopted by most oil and gas resource-rich countries both in and outside Africa to deal with the skills problem and to enhance linkages between the oil and gas sector and the other sectors of the economy is the formulation of local content policies (LCDs). Defined local content development as the requirement that a given percentage of domestic value added or domestic components be embodied in a specified final product (Gene and Grossm, 2002). LCPs are undertaken to enable countries to maximize the gains of foreign direct investment (FDI) through the promotion of local

participation in FDI and the use of local raw materials by investors (Silvano and Tordo, 2013). It is believed that this would result in technology transfer and facilitate the ability of the country to take charge of its own development

Apparently, local content can have positive impact for both company and country. More recently, local content has come to include wider economic diversification, thus going beyond the oil and gas sector value chain (Tordo et al., 2011). According to Willy (2008), local content is a means not a goal. The purpose is to increase national wealth through economic growth and more employment of locals. In Nigeria, local content also represents an attempt to move beyond the indigenization policies of the 1970s. The stated aim of Nigerian content (local content policy in Nigeria) is the "domiciliation" of economic activity in Nigeria. In theory, the emphasis of domiciliation is on doing work in Nigeria that was previously done abroad, rather than on work being done by Nigerian-owned service providers. In practice, even under Nigerian content, a major emphasis on promoting Nigerian ownership remains. However, the acceptance of foreign multinational oil service companies has gained Nigerian content widespread support among both labour unions and industry groups.

Measures of Local Content Development
Skill Development
Knowledge and skills development takes place within the context of a present reality and preferred future. The gaps in many developing countries between current reality and preferred future are enormous and the challenges for knowledge and skills development that will bring the future closer are therefore significant and substantial. More and more developed nations are or aspire to be what are called knowledge economies. The knowledge economy is not just a synonym for information economy or information society. In an age of electronic, digital and satellite technologies, knowledge economies address how information and ideas are created, used, circulated and adapted at an accelerating speed in knowledge-based communities," i.e. networks of individuals striving to produce and circulate new knowledge (Menas, 2008; Ihua, 2010).

Skill development is an investment in human capital, which enhances labour productivity and higher levels of output. The structure and pattern of skill training has to be purposefully re-oriented to join together with the projected future pattern of employment requirements. Most of the countries across the globe have given due importance to Vocational Education and Training(VET) to provide educational opportunities and improve individual employability, reduce gaps between demand and supply of skilled human resource.

Technological Development
Technology development in the context of this study can be defined as the process of creating technological solutions to problems or needs that currently do not have satisfactory solutions. The technical aspects must be developed to a point such that the technology is simple, friendly to the environment and rugged enough to be used in real world applications. Additionally, the technical, social and economic advantages must be well established. The indigenous nature of technology is a consideration for some studies.

The original Capacity for Innovation Index of Porter and Stern (1999) distinguishes between countries where "companies obtain technology by pioneering their own new products and processes, which receive the highest scores, and countries where "companies obtain technology exclusively from foreign countries", which receive less credit. This method values domestic innovation as more valuable than imported technology and diminishes the value of international technology transfer (TT), despite evidence to the contrary, for the success of channels of imported technology.

The World Economic Forum (WEF) also distinguishes between domestic and foreign technology in its study of national competitiveness, on the basis that "evidence suggests that without strong domestic technological activity, heavy dependence on foreign technologies leads to limited and shallow technology transfer (WEF, 2000). Weck and Blomqvist (2008) pointed out that technology transfer implies the movement of technology from one entity to another, and if the transfer is successful, proper

understanding and effective use of the technology by the receiving entity. If the receiver does not understand and use the technology effectively, the transfer is considered incomplete.

Relationship between Strategic Alliance and Local Content Development

Nnamdi, (2017), conducted a study on the effect of international strategic alliance on local content development programme. The study adopted quantitative methodology and data was generated through the use of structured questionnaire while the sample size was 62 respondents from indigenous oil and gas servicing firms in Nigeria. The result of the analysis revealed a highly significant level of association between international strategic alliance and local content development. The results further suggest that through effective partnerships and strategic vertical and horizontal collaborations, firms can be developed such that they are more effective and functional within the industry.

Makau (2012) researched on strategic alliances and organizational competitiveness among commercial banks in Kenya: a case study of Kenya Commercial Bank. The study used descriptive case study design where a convenient sample was used to create a sample frame where 33 respondents were considered. The study used structured and semi-structured questionnaires to collect data which was analysed using MS Excel Spreadsheet and relationship among variables established using correlation analysis. The study found that strategic alliances seek to create competitive advantage through collaboration rather than competition. Strategic alliances are also based on mutual trust of partners. The study also established that strategic alliances provide partners with an opportunity to tap into resources, knowledge, capabilities and skills of their partners to gain competitiveness. Finally, the study found that strategic alliances especially non-equity strategic alliances are positive and significantly correlated with organizational competitiveness. The study therefore concluded that strategic alliances create interdependence between the partner firms which bring benefits in the form of intangible assets and capabilities.

Kibira (2015) investigated on effect of strategic alliances on competitive advantage of commercial banks in Kenya. The study revealed that banks' decision to form strategic alliances with other firms was so as to generate more profits and market share. Other factors highlighted as reasons behind the formation of strategic alliances included to reduce operational costs, to overcome market entry restrictions and slow market penetration, for risk sharing purposes, to achieve economies of scale, to learn new skills and knowledge, for socio-political factors/considerations, to increase efficiency and quality of services and for blocking a competitive threat. The study also found out that the existing strategic alliances had a significant influence on the banks' competitive advantage.

In order to guide the researcher within the context of this study, the following research questions are posed for answers.

Ho$_1$ There is no significant relationship between strategic alliance and technological development in the oil and gas producing companies in Rivers State.

Ho$_2$ There is no significant relationship between strategic alliance and skill development in the oil and gas producing companies in Rivers State.
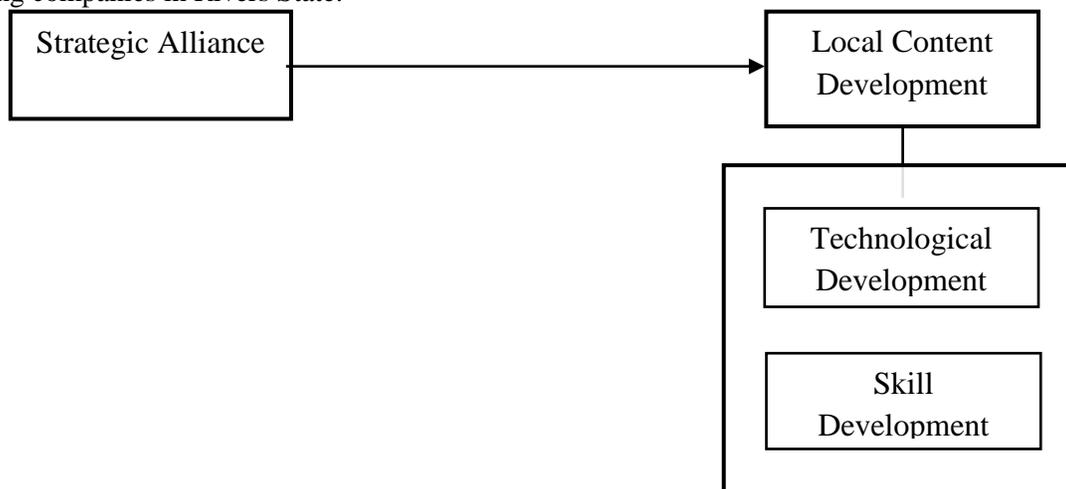
METHODOLOGY

The cross-sectional survey research design was used for the study. This was deemed appropriate for the study because data was obtained through survey questionnaire (when it is used as data collection instrument) are standardized, allowing easy for comparison. The target population was all the 449 oil and gas companies as reflected in the Department of Petroleum Resources Directory, 2017 edition. Out of these 449 oil and gas companies 47 are oil and gas producing companies (DPR Directory, 2017). Through the instrumentality of the nominal roll of the companies, based on functionality and whose number of workers are more than 50 and been in operation for more than ten (10) years and whose zonal offices are located in Rivers State were the accessible population, the senior managers from (10) oil and gas producing companies were purposively isolated because the decision for strategic alliance and local content development is known as the call for those in senior management positions in the oil and gas producing companies. They totaled 149 which constituted our study population. Using the Krejcie and Morgan (1970) table cited in Sekeran (2003), we got an estimated sample size of 107. The questionnaire method of data was used to obtained information from the respondents; while the validity test was both content and face-validity. The reliability for the instrument of this study was ascertained through an instrument known as Cronbach Alpha coefficient which is generally accepted by the rule of thumb (Nunnally, 1978) was considered adequate and the results obtained was 0.91 which is more than the threshold level, 0.7. Inferential statistical analysis was employed using simple regression analysis to test the stated hypotheses with the aid of Statistical Package for the Social Sciences (SPSS 25.0). This helped the study to establish the nature of association between the examined variables.

DATA ANALYSES AND RESULTS

Simple Regression Analyses

The multiple regression analyses was applied to establish the effect and the magnitude the predictor variable had on the criterion variable and to test the hypothesized relationship. The hypotheses were tested at 95% level of confidence and a 0.05% level of significant in order to draw conclusion and make generalization. The SPSS windows output version 25.0 was used to test the stated hypotheses.

Model 1 indicates the Effect of Strategic Alliance on Technological Development

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764[a]	.584	.579	2.65309

 a. Predictors: (Constant), Strategic Alliance
Source: SPSS Output, Version 22.0 2019

Model 1, above showed the empirical result of regression analysis (R-v = 0.764) between the measure of criterion variable (technological development) and the predictors variable strategic alliance that was analyzed together. The (R-v =0.984) above showed that the predictor variable had a strong effect on the criterion variable that was analyzed together. Furthermore, the coefficient of determination (R^2-value 0.584) implies that the predictor variable explain 58.4% variation of technological development while remaining 42.6% could be due to the effect of variables that were not included in the present study.

Table 1: Multiple Regression Analysis Showing Strategic Alliance and Technological Development
  Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-10.115	1.797		-5.630	.000
	Strategic Alliance	1.372	.115	.764	11.895	.000

a. Dependent Variable: Technological Development
Source: SPSS Output, Version 22.0 2019

Hypothesis 1
Ho₁: **There is no significant relationship between strategic alliance and technological development in the oil and gas producing companies in Rivers State, Nigeria**

Table 1 above indicates the empirical result of correlation coefficient with a (t-$_{cal.}$ = 11.895 and t-$_{crit.}$ =1.96) at significant level of (P=0.030 < 0.05%). The (t-$_{cal}$= 11.895 with P=0.030) observed that; the empirical result is statistically positive and significant; therefore, the null hypothesis is hereby rejected and stated that strategic alliance had a positive and significant relationship with technological development. Furthermore, the empirical result also showed that strategic alliance as a predictor variable contributes (β= 1.372) to the variation of the dependent variable (technological development). This means that strategic alliance explain 30.5% of the variation of the criterion variable (technological development) in the oil and gas producing companies in Rivers State, Nigeria.

Model 2 indicates the Effect of Strategic Alliance on Skill Development

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.904[a]	.816	.815	.87836

a. Predictors: (Constant), Strategic Alliance
Source: SPSS Output, Version 22.0 2019

Model 2, above showed the empirical result of regression analysis (R-v = 0.904) between the criterion variable (skill development) and the predictor variable (strategic alliance) that was analyzed together. The (R-v =0.984) above showed that the predictor variable had a strong effect on the criterion variable that was analyzed together. Furthermore, the coefficient of determination (R^2-v = 0.816) implies that the predictor variable explain 77.7% variation of technological development while remaining 22.3% could be due to the effect of extra variables that were not included in the present study.

Table 2: Multiple Regression Analysis Showing Strategic Alliance (Franchising, Vertical Strategy and Horizontal Strategy) and Skill Development
  Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.595	.595		6.043	.000
	Strategic Alliance	.810	.038	.904	21.196	.000

a. Dependent Variable: Skill Development
Source: SPSS Output, Version 22.0 2019

Hypothesis 2
Ho₂: **There is no significant relationship between franchising and skill development in the oil and gas companies in Rivers State, Nigeria**

Table 2 above indicates the empirical result of correlation coefficient with a ($t_{cal.}$ = 1.633 and $t_{crit.}$ =1.96) at significant level of (P=0.106 > 0.05%). The (t_{cal}= 1.633 with P=0.106) observed that; the empirical result is not significant; therefore, the null hypothesis is hereby accepted and stated that franchising had no significant relationship with skill development. Furthermore, the empirical result also showed that franchising as a predictor variable contributes (β=0.184) to the variation of the dependent variable (skill development). This means that franchising explain 18.4% to the variation of the criterion variable (skill development) in the oil and gas producing companies in Rivers State, Nigeria.

DISCUSSION OF FINDINGS
The findings of the study revealed that strategic alliance had a positive and significant relationship with technological development. The empirical result also showed that strategic alliance explain 54.2% to the variation of the criterion variable (technological development) in the oil and gas producing companies in Rivers State, Nigeria. The findings of the study in line with the conclusion of Ibrahim (2011) identified a successful vertical Strategic alliance in Starbucks and Kraft where Starbucks coffee was to be distributed through Kraft only. Starbucks gained quick entry into 25,000 supermarkets in the USA, supported by the marketing muscle of 3,500 Kraft salespeople and Kraft topped off its coffee line with the best-known premium brand and gained quick entry into the fast-growing premium coffee segment. The findings of the study collaborate with Wathe (2016) investigated the influence of vertical strategic alliance being the independent variables, on the performance of manufacturing firms being the dependent variable. The study found out that there is a positive relationship between vertical strategic alliance and the performance of manufacturing companies in Kenya. The study also in line with the result of Mugo (2013) investigated skill development and flexibility practices in the mobile service providers in Kenya. The study established that skill development practice and flexibility aid the efficiency in the operations through enhancing business activities, reducing aggregate costs and minimizing the business risk and enabling the companies to gain competitive position.

The findings of the study showed that strategic alliance had a positive and significant relationship with skill development. Furthermore, the empirical result also showed strategic alliance explains 77.7% to the variation of the criterion variable (skill development). The findings in line with the conclusion of Camison, (2011) conducted a study on the effect of horizontal strategic alliances on business performance by considering the knowledge-based distinctive competencies as a mediating variable using a sample of Spanish firms. Results from their findings prove that the relationship between research and development (R&D), innovation strategic alliances, and performance is mediated by the generation of knowledge-based distinctive competencies; and that the contribution of the participation in alliances to the growth of the firm's knowledge stock depends on its creation of innovation competencies.

Also the result of the present study in line with the conclusion of Idoro, (2011) determined the influence of alliance on project performance in Nigeria. The result of the study revealed that clients engage in horizontal strategic alliance such: supplier-supplier and buyer-buyer consultants in project development and that the practice has significant influence on project performance. It also discovered that the use of the two approaches has differing benefits on project delivery time and cost. The study concludes that horizontal strategic alliance are common practices in project development and that clients are facing a challenge in deciding which approach to adopt.

CONCLUSION AND RECOMMENDATIONS
In conclusion the study finds that strategic alliance affects local content development and thus enhances outcomes such as skill development and technological development: hence based on the evidence of this empirical endeavour we assert that: strategic alliance is important for attaining local content development of indigenous oil and gas producing companies and as such the skills and technological development of the identified companies. Strategic alliance is imperative for the development of the skills and technology

of oil and gas producing companies and thus the development of the local content of the firms. As a result of the findings and conclusions of the study, the following recommendations are herein proffered as ways in which local content development measures can be enhanced in oil and gas producing companies in Rivers State:

1. That the relational processes and structures are made more flexible and accommodating to allow for increased partnership that supports and facilitates learning and tacit knowledge transfer in vertical strategic alliances and partnerships which would facilitate understanding, cooperation and successive implementation of ideas and systems by the organization.

2. That manpower and technology development should be prioritized as regards organizational competitiveness since this would enable the identification and choice of required knowledge and expertise in the specified areas within the organization and would also facilitate the coordination of strategic alliance partnerships.

3. That partnerships of the horizontal and vertical nature be consistently reviewed and sustained through enabling policies and regulations which would further promote the effectiveness of such practices and effectively embed such processes as part of the organizational value and belief system, thus emphasizing them as part of the cultural system of the organization.

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