LOCAL CONTENT STRATEGY IMPLEMENTATION IN NIGERIA: CHALLENGES AND PROSPECTS

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Abstract

The purpose of this study is to identify the challenges that have affected the effective implementation of the local content policy as a strategy on the operations of the Nigeria oil and gas industry and to explore the prospects synergistic work system offers to ameliorate the identified challenges. The study took a qualitative approach in which a conceptual framework was developed from reviewing existing literature on the subject matter of local content policy and synergism as operations strategy. The findings show that synergy amongst the local or indigenous oil and gas companies in the form of sequential integration and synergetic alignment is one veritable strategy to combat the challenges of capital formation, technology acquaintance and effective delivery process thus enabling full realisation of the main objectives of the local content policy. The practical implication is that indigenous oil and gas companies can venture into the capital-intensive aspects of the industry through synergy. The limitation of this study is that it is heavily reliant on literature review and therefore lends itself open to a future quantitative study to determine the level of significance the two dimensions of synergistic work systems (Sequential Integration and Synergetic Alignment) will have on cost minimisation and quality assurance of local content operators in Nigeria’s oil and gas industry. However, the originality and value of this study stems from the fact that the importance of synergistic work system on the local content policy strategy has not been fully explored in literature especially with regards to flexibility and delivery which are vital elements of operations strategy.

Keywords: Oil and Gas Industry, Local Content Policy, Synergistic Work System, Operations Strategy.
1. Introduction

Nigeria's economy is primarily reliant on its oil sector, which generates 90 percent of export revenues and accounts for 41 percent of GDP (World Bank, 2006). Nigeria's oil and gas sector has developed fast and steadily since the first commercial discovery of oil in 1958 in what is now Bayelsa State, and the country today holds the world's tenth-largest oil reserves, believed to be over 25 billion barrels. Nigeria, which is ranked sixth in the Organization of Petroleum Exporting Countries (OPEC) in terms of reserves and daily production, produces over two million barrels per day on average and can increase its reserves to 30 billion barrels (Iledare, 2017). Nigeria is also among the top ten countries in the world in terms of proven oil and natural gas reserves. The estimated crude oil and natural gas reserves as of January 1, 2007, were 36.2 billion barrels and 181.9 trillion cubic feet, respectively.

Both Iledare (2017) and Balouga (2010) agree that petroleum, particularly oil, has been the dominant driver of Nigeria's economy since the end of the civil war in 1970, accounting for about 80% of government revenues and 90-95 percent of foreign exchange earnings on average over this period. Despite these facts, Nigeria's industrial sector (including the petroleum sector) has a negligible impact on the country's overall GDP. And Nigerians’ participation in the industry appears to be abysmal at the level where it can have an impact on GDP. As a result, the Nigerian Local Content Development Strategy was unveiled by the Federal Government in 2010 as part of an effort to increase indigenous Nigerian participation in the oil and gas industry (Adedeji, 2019). It was viewed as a response to the International Oil Companies (IOCs) preponderance of expatriate workers, which has resulted in lack of jobs, poor skills development, inadequate capacity building, and under-utilization of the indigenous workforce, as well as a lack of sustained national economic development in the long run (Udok, et al 2020).

However, the impact of the local content policy on sustainability issues and GDP appears to be less significant, as "declining economic performance leading to rising unemployment or underemployment; lack of access to necessities of life such as water, shelter, food, and clothing; and discriminatory policies that deny access to positions of authority and prevent people from participating in shaping the rules that govern their lives are all indicators." Despite the substantial flow of oil money to state and local governments, many communities see no sign of government presence in terms of development projects. This intensifies a sense of hopelessness and mistrust for the most aggrieved people that lead to a call to arms (UNDP, 2006) thus raising doubts about the efficacy of the local content policy.

Previous researches have focused on measures for boosting the development of Nigeria's local content policy from a supply chain standpoint (Onwuka, 2021), the difficulties in implementing it due to the oil and gas industry's high capital-to-labor ratio requirements (NRGI Report, 2015) and the financial and technical capacity restrictions of local/indigenous operators to leverage on the projected deliverables of the local content policy (Balouga, 2012). However, none appear to address the need for synergy in the operations of these local content companies as a plan to fully exploit the policy's obvious goal, which will have a better positive influence on the Nigerian economy.

Synergism in this context refers to the combined working together of two or more parts of a system so that the combined effect is greater than the sum of the efforts of the parts (Lai, 1977). It is a working system that involves sharing intellectual agility, joint objectives, respect,
organizational structure, and commitment to get the best outcome for each member (Barrat, 2004). However, there is a void in the literature regarding the direct impact of synergistic work systems as an operations strategy on the performance of oil and gas industry key players with local content. As a result, the search for a synergistic work system as a strategy among local content operators in the Nigerian oil and gas industry will focus on issues such as sequential integration (Simatupang & Sindhran, 2005; Zaheer & Venkatraman, 1995) and synergistic alignment (Patnayakuni, et al. 2012) of performance and resource utilization which are critical to operations strategy objectives such as cost, quality, speed, dependability (Slack, et al, 2004).

This article therefore aims to investigate the obstacles that have led to the Nigerian government's Local Content Policy's poor implementation, as well as the opportunities that a synergistic work system plan offers in this regard. The methodology used in this paper is based on a theoretical review of scholarly publications and Nigerian government policy papers. The operationalisation of the key constructs under examination is the subject of the second half of the paper. The third segment will focus on the challenges and potentials of the local content policy from the standpoint of a synergistic work system as an operational strategy.

This paper will conclude with some recommendations that will position the local content policy as a true ally in the fight to save Nigeria from the so-called "Dutch Disease," in which Nigeria's natural oil and gas resources, rather than having a significant impact on the country's GDP (Gross Domestic Product) and HDI (Human Development Index), end up causing severe economic, social, and ecological dislocation (Effiong, 2017).

2. Conceptual Review

2.1 Nigeria Oil and Gas Industry

Nigeria's oil and gas business has grown since the Shell Group discovered crude oil in the country in 1956. The business was primarily dominated by global firms until the early 1990s when Nigerian companies began to enter the field. Upstream and downstream oil and gas operations, as well as activities associated with Nigerian oil and gas exploration, production, exploitation, transportation, and sale, are all part of the sector. In terms of structure, the industry is separated into three sections: upstream, downstream, and services. The downstream sector usually includes the mid-stream operations. However, a differentiation between the two sectors is now being created. The processing, storage, marketing, and transportation of crude oil, gas, gas-to-liquids, and liquefied natural gas are all covered by midstream.

The classification of services in the oil and gas sector comprises of: Exploration support services (Seismic data acquisition, Processing and interpretation, logging, fishing, cementing); Drilling services (Welding services, Well drilling, Cementing, Logging, Fishing); Production support services (Wireline services, Work over services, Production testing services, Construction of oil & gas facilities); Downstream services (Wireline services, Refinery maintenance, Pipeline/depots construction, Petroleum products haulage, Petroleum product marketing); and others like Banking, Catering, and Communication services respectively (KPMG, 2014).

The Nigerian oil sector is governed by a Joint Operating Agreement (JOA) and a Memorandum of Understanding on legal and budgetary matters (MoU). The MoU specifies how the oil revenue is distributed among the partners. The industry also operates a Joint Venture Agreement (JVA)
between the government-owned Nigerian National Petroleum Corporation (NNPC) and some International oil Companies where NNPC holds majority shares while the oil companies hold minority interests in the oil development (NNPC Report, 2006). Furthermore, Nigeria’s economy is heavily dependent on its oil sector, which accounts for some 90 percent of export revenues and 41 percent of its Gross Domestic Product (World Bank, 2006). Despite its relative abundance of mineral resources, the expansion of Nigeria's oil sector has been stymied by its antiquated infrastructure and the frustratingly slow movement of goods through Nigeria's major ports (Ozigbo, 2008). For a country with over four decades experience in oil and gas exploration and production activities and proven recoverable reserves of about 37 billion barrels, her inability to use her mineral resource wealth as a means for national development and poverty reduction has perhaps been the greatest challenge facing successive administrations (Balouga, 2012) which this paper aims to decipher.

2.2 Local Content Policy

The Nigerian Oil and Gas Development Law 2010 defines local content as "the quantum of composite value added to or created in Nigeria through the 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 the 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 (Balouga, 2012).

The Nigeria Oil and Gas Industry Content Development Act was enacted by the National Assembly to give fresh impetus and vigor to the push for local content development in the petroleum industry (Udok, 2020). The policy's primary goal is to enhance Nigerian participation in the oil and gas business, as well as the industry's value creation for Nigerians. Section 1 of the Act applies the Act's provisions to all matters relating to Nigerian content in all operations in the oil and gas industry, despite anything in any other statute to the contrary. Section 2 of the Act mandates that, all licensees and subcontractors adopt a local content plan, and include it in their policies. The Act establishes a legal and regulatory framework for the growth of the indigenous oil and gas companies, by giving priority to Nigerian independent operators in the award of oil blocks, oil field licenses, oil lifting licenses, and all projects, subject to the fulfillment of such conditions as may be specified by the Minister through the Nigerian Content Development and Monitoring Board (the Board) the body charged with establishing guidelines, monitoring, coordinating, and enforcing the Act's requirements (Nigeria Content Development Act, 2010). However, due to some observed challenges in the implementation of the local content law, there is an opportunity for further investigation into the level of compliance and the amount to which local operators have benefited from this policy and regulation. This therefore is part of what this paper seeks to highlight from available literature.

2.3 Operations Strategy

Operations strategy is the total pattern of decisions that shape the long-term capabilities of any type of operation and their contribution to overall strategy, through the reconciliation of market requirements with operations resources. It is focused on the alignment of market demands and
operational resources by: -satisfying market demands (as determined by competitive variables), by establishing appropriate operational performance objectives - Making decisions about the deployment of operations resources that have an impact on operational performance goals (Slack, &Lewis, 2011).

In the case of local content policy, operations strategy is anchored on the Resource-Based View theory, which states that operations play a more active role in delivering long-term competitive advantage. What makes developing operations strategy so difficult is that not only should market-based and resource-based views of strategy be considered at the same time, but the changing characteristics of markets and the need to develop operations capabilities over time necessitate both a dynamic and a static view of strategy (Brown, et al. 2010).

2.4 Synergistic Work System

Synergistic work systems can be seen as a business understanding between two or more organizations operating at the same level in the work system or network to make workflow smoothly and cooperatively towards achieving a common objective (Cao, & Zhang, 2011). Synergism encourages all members in the work system to participate in planning, administrative integration, forecasting, replenishment, incentive sharing, and resource sharing (Ramanathan, 2012; Hudnukar et al., 2014).

Previous researches on Synergistic Work Systems by Hull (2002) and Muthemba (2016) have found that it had a substantial impact on market share, cost reductions, and positively influenced the operational performance of oil and gas companies in developing nations. However, there appears to be a scarcity of research on how two major elements of the synergistic work system, namely Sequential Integration and Synergistic Alignment, can affect the operations of local content operators in the Nigerian oil and gas industry. This paper will attempt to explore this causal relationship from a qualitative and conceptual content analysis point of view in the hope that further studies will delve into a quantitative data-driven analysis of the effects of the dimensions of synergistic work systems.

3. Challenges of the Implementation of Local Content Operations Strategy in Nigeria’s Oil and Gas Industry

Genuine indigenous participation has been a problem for the oil and gas industry since its inception in terms of achieving home-grown participation in the petroleum industry. Over the years, oil blocks have been allocated to indigenous companies, but only a few of these companies are genuine. A policy for the creation of local content is also in place. It may be argued, however, that these policies are set up to fail not due to a lack of human talents or technological expertise, but due to insufficient financial intermediation (Iledare, 2007). However, with the introduction of the Nigeria Local Content Policy in 2010, expectations were high that some significant level of improvement will be achieved in terms of capacity, resource utilization, cost control, and quality assurance by the local operators thereby impacting the GDP of the country positively. But that has not been the case due to numerous challenges.

The work of Udok, et al (2020) is explicit on the problems of local content development in the oil and gas industry. These problems include inadequate infrastructural base including power and transportation facilities; lack of access to the kind of capital to participate effectively and
efficiently in the sector; political instability and bad investment climate (Omenikolo & Amadi, 2010); discrimination and under-utilisation of the small and medium-sized enterprises due to capacity issues (Ihua, 2010); non-compliance by some 10Cs; corruption and absence of transparency in the contracting process and project execution (Effiong, 2010); and inadequate penalties for violations and weak mechanisms to execute the Nigerian Local Content Development Act's provisions.

Critical to the challenges enumerated above is the fact that there exists the so-called “Knowing-Doing Gap” in Nigeria, which refers to the disconnection between policy design and policy execution. This term describes the absence of a critical link between strategy and action. In Nigeria, this divide has consistently hampered public policy attempts and activities, with numerous government programs and projects failing miserably. Inadequate think-through, weak institutional capacity, lack of political will to carry through change, inconsistence in government policies, lack of support from relevant stakeholders, and corruption are some of the causes of this gap (Balouga, 2012).

4. Prospects of Local Content Operations Strategy Implementation

There has been a systematic but gradual improvement in local content in the industry since the Nigerian Oil and Gas Industry Content Development Act was signed into law in 2010, and with a visionary and dynamic agency, the Nigerian Content Development and Monitoring Board (NCDMB), driving its implementation. Nigerians have developed competence in jobs previously reserved for foreigners, and the majority of jobs previously undertaken outside Nigeria are now performed by Nigerians and in Nigeria. This has led to the retention of a large chunk of the industry expenditure in-country, with the attendant positive impact on employment generation and growth of Gross Domestic Product (Onyio-ogelle, 2016).

Although there has been great success in the execution of some types of projects in the oil and gas business in Nigeria and by Nigerians, the difficulty of integrating the work of these indigenous operators into the industry's high-end activities subsists. According to the Onyio-ogelle’s report, a typical FPSO for each of Nigeria's five deep-water oilfields has a length of over 300 meters, a weight of over 110,000 tonnes, and a breadth of 60 meters. However, only roughly 8,000 tonnes of the total 110,000 tonnes are fabricated in Nigeria by local contractors, as the majority of the fabrication work is done in Korean yards by Hyundai Heavy Industries and Samsung Heavy Industries.

Although Nigerian industries manufacture structural steel components up to 8,000 tons, these structures are shipped to foreign fabrication yards for integration into the main FPSOs before the FPSOs sail to Nigeria when they are finished. It is against the foregoing that pundits and industry operators have posited in various literature that establishing a strong energy bank, well programmed and aggressive technology transfer program, deliberate improvement of infrastructural facilities, non-restriction of the application of the Local Content Act by the Federal Government to allow local operators get actively involved in exploration and production services will enhance the prospects of the local content strategy in Nigeria’s oil and gas industry (Obaseki, 2002; Adepetun, 2010; Balouga, 2010).

The missing link here, however, is the need for key local players in the oil and gas industry to synergise according to areas of specialization to build a formidable structure that takes advantage
of economies of scale by pooling resources to compete favourably with the 10C's in the critical aspects of the industry that have the potential to impact both the country's GDP and human capital development index (HDI). When funds, equipment, and human resources are pooled together amongst operators in specialized areas and deployed strategically in a competitive manner, the outcomes both in terms of bottom-line and contribution to the larger macroeconomic indices will be more significant.

The proposed synergism will have a favorable impact on cost, quality, and lead delivery time, all of which are important factors in operations strategy. Because so many local entrepreneurs are playing in peripheral operations in the oil industry, the country will not reap the full benefits of the local content policy strategy.

5. Conclusion and Recommendations

This article attempted to demonstrate that the oil and gas industry's local content policy, as an operations strategy, is well-intentioned in terms of increasing job creation, human capital development, technology transfer, and value addition to Nigeria's economy. However, due to the constraints of infrastructural shortfalls, capital deficiency, and uncertain interpretation of the scope of operations covered by the enabling Act, the extent to which these objectives have been met is questionable. Even though the National Content Development and Monitoring Board (NCDMB), the body charged with implementing this policy, is working hard to overcome some of these obstacles, in addition to the Federal Government's renewed interest in infrastructural development, this paper believes that the key local actors in the industry's down and mid-stream operations should synergise in terms of capital formation, technology acquaintance, and delivery process to fully maximize the potentials of the local content strategy.

Recommendations

The NCDMB is encouraged to develop a framework for the implementation of this synergistic work system in the local content strategy in consultation with relevant Government agencies, leadership/members of the PETAN (Petroleum Association of Nigeria), and the IOCs (International Oil Companies). Secondly, since this is a qualitative study that is heavily reliant on literature reviews, it is recommended that a quantitative study be conducted to determine the level of significance that the two dimensions of the synergistic work system (Sequential Integration and Synergetic Alignment) will have on cost minimisation and quality assurance of indigenous companies in Nigeria's oil and gas industry, with local content policy as the moderating variable.
References


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