Multinational Companies and Joint Venture Investment Management Strategy: A Contemporary Diagnosis Of Nigeria’s Oil Sector

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Abstract
This study brought to the fore, critical issues relating the Joint Venture Arrangement (JVA) prevailing in the Nigeria’s oil sector. The JVA option was considered the best alternative strategy for optimizing Nigeria’s oil returns and indigent capacity buildings, since April 1971. Questionnaire was designed and administered on a stratified random sample of 240 indigent senior officials of frontline oil sector organizations (with area/zonal offices) in Port Harcourt. Data analysis mainly involved in the application of chi-square ($\chi^2$) statistical technique, which indicated that the JVA has made marginal contributions towards indigent executive/operative capacity building. It is therefore imperative for the parties to comprehensively make-up for the functional lapses and partner effectively to promote entrepreneurial employment alternatives.

Introduction
Nigeria is one of the world’s leading oil producing nations, ranking second after Libya in Africa, and eight in the world. Although Nigeria’s first crude oil export was in 1959, the commodity has since the 1970’s become the mainstay of the nation’s economy. Currently, oil constitutes over 90% of Nigeria’s national income, over 85% of Federal Government revenue, and over 80% of the country’s foreign exchange earnings. Nigeria has, in recent years, become heavily dependent on oil revenue to the utter neglect of the agricultural sector, which before the oil boom was the bedrock of the economy. The major agriculture products then, were palm produce in the East, groundnuts, in the North, and cocoa in the West. Export of these products amounted to between 70% and 80% of the country’s foreign exchange earnings. Added to these were cassava, yam, beans, millet, rice, etc, which satisfied the domestic requirements. The oil boom, perhaps inadvertently, brought about the neglect of the production of export crops and domestic agricultural products, whose market prices are no longer as lucrative as that of oil to the end that, export crops contribute far less than 10% of the nation’s foreign exchange earnings.

Paradoxically, even domestic staples such as rice and beans are now being imported to supplement local supply in an economy, which has been outweighed by the fast growing
population (Okoye, 1982; Achigbu, 1997; Agundu, 2000. Since inception, the oil sector has been and still is predominantly in the hands of giant multinational corporations (MNCs). In 1938, when oil prospecting began in Nigeria, Shell d' Arcy Petroleum Company and British Colonial Government. Shell BP’s monopoly was broken in 1955, with the granting of concession to other oil firms such as Mobil Exploration Nigeria Limited (subsidiary of the American Socony-Mobil Oil Company), SAFRAP (of the French oil group), AGIP, Phillips, Tenneco, Delta/Pan Ocean, Japanese Petroleum, Occidental, Ashland, among others, which (were) all MNCs. Today, the main oil companies operating MNC’s in Nigeria include Shell Petroleum, Elf, Mobil, Chevron, Nigerian Agip Oil Company, Texaco, Ashland and Panocean. They were extracting and marketing Nigeria’s oil and paying royalties to the Federal Government of Nigeria (FGN) until 1967, when manipulation of output figures and exaggeration of extraction, transportation, and storage costs were insinuated by concerned stakeholders. This gave birth to the JVA of April 1971, which ushered government into the mainstream of the oil industry, with a view to ensuring that the nation derives the best from her oil resources.

In 1958, when the first shipment of crude oils from Nigeria to Europe was made, Nigeria was still a colonial country, so the colonial government administered earnings. The 1959 Act stipulated categorically that profit derived from oil should be shared on 50:50 basis between the FGN and oil companies. This principle was achieved by charging tax of 50%, which the companies were mandated to set off and pay to government. The oil companies thrived under these provisions to the disadvantage of the FGN, until the Act was amended in 1967, after due consultation with major oil producers, on issues relating to pricing policy and intricate methods of the oil business. Namco (1982) equally captured the scenario in his assertion that:

until quite recently, Nigeria oil was extracted and marketed by the companies involved in the oil industry. Before January 1967, royalties for oil were assessed from the value of crude oil at the place of extraction. This value was compiled from proceeds realized at the port of export after deducting the cost of extraction, transport and storage. All of these costs were determined by the multinational companies.

This method invariably caused production profits to accrue unchallenged to the oil companies because of their monopolistic powers. In addition to the amendment of the 1959 Act, in 1967, Nigeria became a member of the Organization of Petroleum Exporting Countries (OPEC) in 1971 and subscribed to the OPEC’s Resolution XVI, Article 90 of June 1968, which provided that:

i. Petroleum had become too critical to the well being of producer nations to be completely entrusted in the hands of private foreign nations;

ii. It is in interest of national security of these nations;
iii. The desires to obtain a fair share of the proceeds from foreign companies whose activities in the industry are shrouded with secrecy (Orife 1987).

Essentially, this study set out to examine the extent to which the JVA has achieved the purposes for which it was initiated. The pertinent research questions were:

i. What are contributions of the JVA to Nigeria's socio-economic development in terms of technological/managerial skills transfer, government revenue earnings, employment generation, and welfare provisions to host communities?

ii. What are the factors militating against the smooth operation of the JVA in Nigeria?

iii. What measures/plans are in place towards enhancing JVA effectiveness and efficiency in Nigeria?

The comprehensive research proposition (RP) formulated for the study was:

RPo: The Joint Venture Arrangement (JVA) has not made marginal contributions toward indigent executive/operative capacity building.

Literature Review

The presence of MNCs in developing countries is quite visible. According to Sanda (1977), the MNCs at the very beginning mainly mining and oil companies originating from America. However, in the last few years, European and Japanese multinationals have also emerged to compete with the American giant companies in other fields, including automobile, insurance, transport, distribution of electronics, and food processing. The expansion of these giant companies and their use of private wealth generated in developing nations, have raised doubts about concern real development in the poor countries.

These giant commercial/industrial entities have spread their tentacles and extended their activities to virtually all sectors of developing economies. It was in a bid to establish checks and balances that the JVA was instituted in Nigeria. The MNC's, also referred to as Transitional Corporations (TNCs), International Corporations (ITC's), or Multinational Enterprises (MNEs), have several definitions put forward by different scholars, some of which project them as:

i. Giant private enterprises, with subsidiaries and branch offices in many parts of the world (Todaro, 1977);

ii. International financial conglomerates of large firms which are characterized by large capital outlay, abundance of technical know-how, variety of technical/managerial manpower and are in the pursuit of profit (Onoh, 1983);

iii. Typically large international concerns (or trust) made up of many subsidiary companies abroad, owned by a parent company at home, and organized in
oligopoly patterns to control production, sales and capital around the world (Namco, 1982).

Though their underlying characteristic features are apparently the same all over the world, Meier (1976) contended that the key distinguishing feature lie in the fact their major decisions, with respect to finance, investment, production, research/development, and handling of governmental policies are tailored towards the opportunities and problems prevailing in the target countries. Nonetheless their intent is to maximize profits from all activities as a whole rather than each subsidiary seeking to maximize targets independently (Caves, 1974). In terms of conceptual justification, Walmsley (1982) gave the fundamental reasons why industrial organizations opt for JVA as:

a. Providing clarity of purpose, which is necessarily required to forge a dominant business, with viable platform to start off as a superior enterprise, which through judicious application of resources, stand a reasonable chance of being a continuous profit earner wherever it is based;

b. Mustering comparatives strengths over other possible routes to undertake the strategic institutional improvements desire to penetrate a specific geographic market, go into a new business field, achieve vertical (downward and or upward) integration, expand existing product lines, and improve overall corporate effectiveness and efficiency.

Furthermore, joint ventures differ from a merger/acquisition, in the sense that:

i. They maximize opportunities to develop a structure/that is consist with their clearly stated purpose. It can adopt its own style and it is not obliged to inherit existing business strategies;

ii. They need contain no winners or losers, but rather harmonize the varying skills that the partners many contribute in the interest of the joint business mission;

iii. They, in terms of business development, are so clearly isolated from the existing structures of the participants that both sides can measure the activities generated and respond better than it is possible with merger/acquisition situation; and

iv. Within the framework, it is more practicable to concentrate management thinking on the growth of the new business in the selected (target) market place.
Also, MNCs possess inherent flexibility so that they can be shaped in a variety of ways to suit the specific needs of partners and of the market. In spite of the justifications, there is usually some distrust on both sides (parties) resulting from size differences of organizations or disparities in levels of sophistication and allied logistics. Walmsley (1982) therefore outlined the criteria for selecting a prospective partner to include:

i. **Finance:** This relates to information about the financial history, overall financial standing and possible reasons for corporate successful/unsuccessful experiences;

ii. **Organization:** This relates to information on the structure of organization, quality, and turnover of senior managers, work-force conditions/ labor relations, records and reporting systems, evidence of strategic and planning, effective owner-workers relationship in business;

iii. **Market:** This relates to information on market reputation in market, experience with competitors evidence or research interest in service and quality sales methods. Productivity of sales force competence in handling weak business conditions and progress of newly stated business;

iv. **Production:** This relates to information on condition of existing premises/works production efficiencies/layouts capital investment and improvement quality control procedure evidence of innovative research introduction of new technology and relationship with main suppliers;

v. **Connection:** This relates to information on government and business contracts; successful negotiations with banks, licensing authorities, etc; main contacts with local organizations/companies and geographical influence. Other areas of concern have to do with party features/attitudes (flexible/hardline), quick/tentative decision taking, negotiating experience, and strength of team support.

The vicissitudes of Nigeria’s oil industry with respect to JVAs resolve around the Nigerian National Petroleum Corporation (NNPC). In the employ of NNPC are various cadres of professionals such as lawyers, economists, accountants, geologists, geophysicists, and engineers of various specializations for the purpose of effective operations and liaison with foreign partners. By design, there is a permanent Joint Venture Department (JVD) of the Exploration and Exploitation Division of the NNPC. The JVCC directs activities of the oil companies and manages various associated contracts. Pertinently, the NNPC was reorganized to advance nine subsidiaries.
This structure was subsequently revisited to give rise to six directorates and eleven subsidiary companies charged with the execution of the Corporation’s business. In the light of this, the NNPC is headed by a Group Managing Director (GMD), supported six Group Executive Directors (GEDs) responsible for Exploration and Production, Refining and Petrochemicals, Engineering and Technical Services, Commercial and Investments, and Finance and Accounts.

The eleven (11) subsidiaries are limited liability companies, wholly owned by NNPC or jointly with foreign and local investors. All the subsidiaries have separate boards of directors even as the holding company (NNPC) has its own Board of Directors composed of a Chairman while the GMD and GEDs are all members. At the subsidiary level, the Board comprises a Chairman, MD, two EDs (one in-charge) of operations while other members drawn from outside the company (Onoh, 1983). The Eleven (11) subsidiaries and their operational specifications are:

i. **Nigerian Petroleum Development Company Limited (NPDC)**, which is wholly owned by NNPC and actively involves in exploration and production of crude oil;

ii. **Integrated Data Services Limited (IDSL)**, which profitably provides effective services in seismic data acquisition, processing and interpretation as well as petroleum reservoir engineering data evaluation;

iii. **Warri Refinery and Petro-chemicals Company Limited (WRPC)**, which process crude oil into finished petroleum and petro-chemicals products for domestic consumption/export;

iv. **Kaduna Refining and Petrochemicals Company Limited (KRPC)**, which process crude oil into finished petroleum and petrochemical products for domestic consumption/export and manufactures linear Alkyl benzene and tin;

v. **Port Harcourt Refining Company Limited (PHRC)**, which also processes crude oil into finished petroleum for domestic consumption/export;

vi. **Pipeline Products and Marketing Company Limited (PPMC)**, which distributes crude oil into refineries and moves white products to existing markets;

vii. **Nigerian Gas Company Limited (NGC)**, which effectively manages, transmits and markets Nigeria's natural gas and by-products to major industrial and utility companies in Nigeria and neighboring countries;

viii. **Eleme Petrochemicals Company Limited (EPCL)**, which is jointly owned by NNPC and the private sector, with the objective of manufacturing petrochemical products with natural gas and by-products;

ix. **Nigeria Liquefied Natural Gas Limited (NETCO)**, which is a Joint Venture between NNPC and American firm, and provides engineering Backup for NNPC’s operations;
x. Nigeria Liquefied Natural Gas Limited (NLNG), which is a Joint Venture of NNPC, Shell, Elf and Agip, and is to acquire and ensure a growing share of the international market for Nigeria’s abundant natural Gas resources;

xi. Hydrocarbon Services of Nigeria (HYSON), which is a joint venture of NNPC and a Swiss firm, and operates as a marketing outfit for Nigeria’s excess Petroleum products in the west and central African sub-region.

Subsequent acquisition took place in 1974 when government interest in Elf, Agip, Philips, Shell BP, Gulf and Mobil were increased to 55%. It extended to Texaco (in 1975) and Pan-Ocean (in 1978). Increase of participation by government reached 60% in 1979, in all of the above companies, while British Petroleum interest in Shell BP was eventually taken over in that year (Orife 1987).

In acquiring these stakes, government sought to guarantee (through NNPC) that the country exercises its right to commercial participation in all activities to optimize returns from crude and to promote local acquisition of technology in the industry. The JVD was thus created and assigned key functions such as:

i. Monitoring all oil company operations, addressing technical and economic viability of programmes and projects and for reasons of keeping our reserves counts high, as well as encouraging partnership to reflect progressive exploration and health/production tempo;

ii. Ensuring optimum production level, in keeping with good oil field practices, thereby maintaining a balance between the productive potentials of reservoirs and their actual production through the judicious use of the reservoir energy;

iii. Ensuring fair return on investments;

iv. Enriching local experience in petroleum activities by drawing from the expertise of foreign partners;

v. Promoting the transfer of technology to indigenous manpower.

In the Nigerian economy, apart from the JVA between NNPC and various oil companies, some foreign companies also have JVAs amongst themselves, such as Philips and Agip, Chevron and Texaco Overseas, among others. Under the participation arrangement, the cost of exploration development and production are put up by the individual partners according to their participating interest percentages while the benefits derived from the contracts are shared on the same proportion. An attempt to improve the participation type of arrangement with the oil companies brought by the Production Sharing Contract (PSC) arrangement, which was pioneered in the early 1970s by some OPEC member countries (including Indonesia), since it vested ownership
concession on the host country. This arrangement cushions the inadequacies of the developing oil producing nations in terms of inadequate technology base and insufficient financial resources.

The NNPC/Oil Companies JVAs have been on for many years, progressing from the traditional equity participation option to Service Contract option, with a view to effectively advancing and enhancing the Nigerian oil industry.

**Methodology**
The study involved the management and senior staff cadre NNPC, Shell, Agip, Chevron and Elf. Using stratified random sampling method, 240 respondents were administered with questionnaire, which comprised structured and open-ended (unstructured) questions, with sections on:

i. Corporate/personal background information;

ii. Socio-economic development indices such as employment creation technological transfer and foreign exchange earnings;

iii. Obstacles inhibiting the smooth operation of JVSs; and

iv. General issues concerning NNPC/JV/host community relations.

The main statistical method applied in testing the research proposition (RP) were Chi-Square ($X^2$) technique whose function is:

$$X^2 = \frac{(O-e)^2}{e}$$

Where $O$ = Observed frequencies

$E$ = Expected frequencies

**Analytical Results**
The data relating to contributions of JVAs towards indigent executive/operative technological capacity building are presented and analyzed in Table 1 below, in line with the RP.
Table 1: JVA Contributions and RP

<table>
<thead>
<tr>
<th>Response</th>
<th>Respondents</th>
<th>Percent (o)</th>
<th>(e)</th>
<th>(o-e)</th>
<th>(o-e)^2</th>
<th>(o-e)^2/e</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Tech Prospects not so bright</td>
<td>60</td>
<td>25</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>b) Keen in tech. Transfer.</td>
<td>40</td>
<td>17</td>
<td>25</td>
<td>-8</td>
<td>64</td>
<td>2.56</td>
</tr>
<tr>
<td>c) Key jobs done overseas.</td>
<td>120</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>375</td>
<td>15.00</td>
</tr>
<tr>
<td>d) Tech. Progress is slow</td>
<td>20</td>
<td>8</td>
<td>25</td>
<td>-17</td>
<td>289</td>
<td>11.56</td>
</tr>
<tr>
<td>Total</td>
<td>240</td>
<td>100</td>
<td>100</td>
<td>NA</td>
<td>NA</td>
<td>29.12</td>
</tr>
</tbody>
</table>

Source: Research Data (2003)

The calculated statistical (29.12) is significant at 99% confidence level, empirically establishing that the JVA has made marginal contributions towards indigent executive/operative capacity building in Nigeria.

Discussion

In recent times, there have been frequent calls for another comprehensive review of the memorandum of understanding (MOU) of strategic stakeholders of the oil industry, which suggest that all is not well. According to Kola (1989), the key aspects had to do with defining in greater details the role and place of the oil producing/service companies, examination of complaints of contracting partners about huge operating costs, which the oil firms incur on behalf of the JV without the consent of NNPC. The review of the MOU in 1991 was acceptable to all parties. The document, according to Ifeanyi (1996), underscored actualizing the target of expanding the Nigeria’s and reserve base so as to maximize the nation’s OPEC allocation.

With respect to employment and capacity building, the JVD stipulated the following conditions for contractors since most JV project/operations are executed on contract:

i. Each year the contractor shall submit a detailed programme for recruitment and training for the following year in respect of its Nigerian personnel in accordance with the Petroleum Act of 1969 (as amended);

ii. Qualified Nigerians shall be employed in all non-specialized positions;

iii. Qualified Nigerians shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, and finance.
The contractor shall have the right, subject to applicable laws, rules and regulations to employ non-Nigerians are not available provided that the contractor shall recruit and train Nigerians for such specialized positions such that the number of non-Nigerian staff shall be kept to a minimum;

iv. Competent professionals of the NNPC shall be attached to work with the contractor from time to time and such officials and the contractors’ teams shall not be treated differently with regard to salaries and other benefits;

v. Cost and expenses incurred in the recruitment and training of Nigerian personnel shall be included in operating costs.

Nonetheless, there are obstacles to the smooth operations of the JVA, which have been identified to include false declaration of figures by oil companies, government frequent intervention, funding constraints, and untimely agreement on joint venture projects. With respect to false declaration of figure by oil companies, improper budgeting by JV operators was reported to take various forms, such as:

i. Budgets overblown to compensate over-dependence on expatriates by the JV operators,

ii. Contracts inflated (and sometimes unexecuted) and charge to the JV.

iii. Misrepresentation of actual expenditures by operators.

iv. Over-contribution, to cash call relative to NNPC equity share, occasioned by the preceding factors.

Other obstacles to the smooth JV operations bother on human resource recruitment and community welfare agitations.

Recommendations

In view of the research findings, it is recommended that:

i. JV stakeholders should demonstrate greater commitment towards building and empowering indigent executive/operative capacities as provided for in their agreements;

ii. Host communities should always be contacted and instructed to prioritize their solid amenities needs, so that they would be addressed by the oil companies. This has the potential of reducing unnecessary demands by host communities and Instances of communal clashes with oil companies;

iii. Government should device more ways of checking (preventing) the frequent harassment/distraction of oil companies rather than waiting for them to be
attacked by agitators before drafting in Mobile Police and/or soldiers to the crisis situation;

iv. Indigenes of host communities, who benefited from corporate university scholarship programmes of the oil companies, on successful completion should be considered for job placements since the disciplines for which the rewards were made are directly related to the oil industry;

v. JV stakeholders should partner effectively and efficiently to promote youth skill acquisition programmes will generate entrepreneurial employment, so as to reduce the pressure on oil companies for masses employment.

In these lie the structural tonic that would advance the dream of the JV stakeholders.

References


