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Supplier Development in Tanzania; Experiences, expectations and motivation

Giuseppe Calignano*, Terje Ingebrigt Vaaland

University of Stavanger – UiS Business School, Stavanger, Norway

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ABSTRACT

This paper contributes to a limited number of empirical studies focusing on African suppliers meeting international sourcing requirements in host countries. The present article is based on a survey of 110 companies targeting the emerging oil and gas industry and follows an explorative study design aiming to examine experiences, preferences and motivation of potential suppliers located in Tanzania. Techniques such as cluster analysis, graph visualization, descriptive statistics and concepts from social network analysis (SNA) were adopted to carry out the study. Our analyses show that only 15% of targeted firms collaborate, or have previously collaborated, with two or more companies and that close to one-third of the firms are unwilling to contribute financially for a training/development programme. Finally, a majority of the firms are willing to spend 15 days or less, which is assumed to be far below the minimum for an effective inter-firm improvement programme. Perhaps more interestingly, our study reveals that "open firms" are also more positive to contribute in improvement programmes. Several implications and guidance can be drawn from this study (e.g. need of a greater number of inter-firm collaborations, joint development initiatives including also foreign supplier firms, international oil companies and learning institutions).

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1. Introduction

When marketing scholars study business-to-business interactions they often see that actors collaborate with each other through trust-based mechanisms. These mechanisms open for collaboration within several aspects of importance for the firm's competitiveness, for example: (i) improving the activities between the firms in its value chain, (ii) to bundle resources and thus strengthen the firm's resource base, and (iii) to share information and experience. The trust-based mechanism is one cornerstone in the industrial network approach, also referred to as the IMP approach in marketing (Håkansson and Snehota, 1995), in which the firm is dependent on combining its resource base across a firm's boundaries. Through inter-firm relationships in a network of interdependent actors, the resource base can be enhanced and provide a fundament for competitive advantages. This is particularly relevant in a developing country context, in which each indigenous market actor suffers from both a weak resource base (Vaaland et al., 2012; Owusu and Vaaland, 2016) and a weak culture of inter-firm collaboration and trust (Vaaland et al., 2012; Mutula, 2008; Klerk and Kroon, 2007; Humphrey and Schmitz, 1998), not least in a context in which foreign firms are dominant market actors with access to a well-developed and competitive international supplier base. This study focuses on the collaborative aspects of Tanzanian companies within the emerging oil and gas industry of the country.

Foreign-based companies and suppliers are highly involved in the exploration and exploitation of natural resources in African countries. Whereas the mining industry has been going on for hundreds of years, the petroleum industry is relatively new to Sub-Saharan nations. New oil and gas nations such as Ghana, Uganda, Tanzania and Mozambique are now facing challenges in applying natural resources as a means to create national wealth and benefits for society. Discoveries of oil and gas make the extractive industry the fastest growing sector in emerging economies. The upstream value chain activities in this industry are dominated by international oil companies and foreign suppliers (IOCs), which are increasingly exposed to *local content* expectations and requirements (Vaaland, 2015).

The World Trade Organization (WTO, 2011) defines *local content requirements*, synonymously referred to as *domestic content requirements*, as a "requirement that the investor purchase a

* Corresponding author.
E-mail addresses: giuseppe.calignano@uis.no (G. Calignano), terje.vaaland@uis.no (T.I. Vaaland).

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certain amount of local materials for incorporation in the investor's product". The fundamental task is to "involve and enhance the domestic knowledge base through arrangements that allow for a dynamic industrial and technological development that gradually expands domestic competence and capabilities to competitive levels" (Heum, 2008: 4). This also creates an opportunity to build a sustainable culture of service quality and capabilities that exceeds customer expectations, and that is comparable to international standards (Ihua et al., 2011; Mwakali et al., 2011). However, in spite of local content expectations imposed on the IOCs, the inclusion of local suppliers is not easy to acquire (on this topic, see Ablo, 2015, and Lange and Kinyondo, 2016). Firstly, highly competitive global suppliers are already available; secondly, the level of the industrial base of the host country is not yet ready for meeting the minimum standards for inclusion (Oguji and Owusu, 2014). Local content requirements imposed on IOCs can enable local firms to become involved in tendering processes and be included in an IOC-initiated supplier development programme, although a local firm without ambitions for climbing up the ladder to a higher level than the minimum performance levels will never survive in this type of competitive environment (Owusu and Vaaland, 2016).

In the early stages of the development of the petroleum and mining sector, the capacity to meet professional industry requirements is likely to be low, particularly in developing countries with a weak industrial base (Tordo et al., 2013). Some of these challenges are illustrated by Parris (2013): (i) a low level of economic development, (ii) a lack of timeliness, (iii) a high level of corruption, (iv) people not following written instructions, (v) "poor quality is the norm", (vi) "it is not a problem until it is a problem", (vii) "life is unpredictable", and finally, (viii) "workers are not expected to innovate". Anderson's (2011) study of SMEs in Tanzania identified: (i) inadequate international business skills and management capacity, (ii) poor access to finance, and (iii) imperfect market information and links as main challenges. Adebanjo et al.'s (2013) study in Nigeria identified that the vast majority of potential suppliers failed to achieve the minimum acceptable performance. They further suggest that supplier performance in countries similar to Nigeria has a very significant scope for improvement, thus casting doubt on the ability of many suppliers to compete internationally or with international competitors.

These findings illustrate major obstacles for an indigenous company in meeting international sourcing criteria and expectations from IOCs. The way these obstacles can be reduced is primarily to develop the local companies' product offerings and resource bases. Learning networks and supplier developing programmes are examples of collaborative arrangements that can help enhance the indigenous companies' competitive power. The value of these arrangements rests on a willingness for participants to share information and experience, and to involve and learn from foreign companies more familiar with international sourcing requirements.

The aim of the paper is to explore the inter-firm collaborative potential in order to improve the competitiveness in relation to participation in the oil and gas industry. Rather than providing a critical analysis of the theoretical aspects of inter-organizational trust and collaboration, this paper attempts to explore the more practical sides of inter-firm collaboration and improvement in a developing country context. It is inferred that improvement processes are attached to formalized programmes, in which local firms actively participate in sharing and accessing competencies.

This leads to two research questions:

1. What inter-firm collaborative experience prevails among developing country firms?
2. If an inter-firm developing programme is launched:
   a) What content, comprehensiveness and teaching resources should be included?
   b) How much is the firm willing to invest in time and money to participate?

The Tanzanian context is chosen for of three reasons: First, there is much that is unknown about business activities in developing economies (Adebanjo et al., 2013), and very few empirical studies have focused on African suppliers meeting demanding international companies in the host country, and to the best of our knowledge, none from a supplier perspective. Second, the industrial base is weak and suffers from a lack of inter-organizational trust, which hampers collaboration and in the end necessary improvement processes. Third, the potential economic effect of including local firms in the oil industrial value chain is considerable for a developing country such as Tanzania.

The paper is further organized into six sections: First, a literature review is presented, followed by methodology. In the third section, findings are presented and continued with a discussion and implications, before the paper is concluded in the sixth section.

2. Literature review

The study is theoretically based on the industrial network approach, which represents three core elements required for collaboration. The literature within supplier development and learning networks within a developing country context are also presented in order to provide a background for the programme features.

2.1. The industrial network approach

According to the industrial network approach (e.g. Haakanson and Snehota, 1995; Ford et al., 2006; Vaaland et al., 2012), the firm is described as an actor in a network of interdependencies. The position in the network (e.g. in terms of competitiveness) is determined by the strength and content of relationships connecting the firms. In this perspective, the firm is both affected by-, and affects, other actors in the network. This implies that the network of "weak" developing country suppliers represents a potential for enhancing competitiveness which supposes that they are willing and able to share resources. The relationships between the networking actors (i.e. the local firms) consist of three interrelated dimensions, which can also be studied separately (Håkansson and Snehota, 1995, 2006), namely activity links, resource ties and actor bonds. Moreover, the activity links between the firms can be analysed and improved by collaborating on where to set the boundaries for activities in the value chain.

The resource dimension describes how resources between the actors are connected, combined and shared through resource ties for achieving common goals. The resources possessed by networking actor are considered significantly larger than the resources possessed and controlled within the specific firm boundaries. Industrial network research focuses on what roles actors play in business relationships and what resources they bring and develop, both individually and mutually, with the other actors and networks (see Ford et al., 2006; Håkansson and Snehota 2006; Ritter et al., 2004). However, for the specific networks to achieve certain aims, they need to develop resources to help fulfil their roles. The process of developing resources and fulfilling roles is encapsulated in relationship building through various types of linkages. Our dynamic and active view of linking and building relationships is similar to the findings of Järvensivu and Möller (2009) and Möller and Rajala (2007), who state that actors cooperating in an industrial networks have to contribute unique

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