

**FACTORS THAT ATTRACT TULLOW COMPANY TO INVEST IN
PROSPECTING FOR OIL AND GAS: A CASE STUDY OF TULLOW
COMPANY, KENYA**

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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Date.....

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D61/67904/2011

This research project has been submitted for examination with my approval as the university supervisor.

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To all of you, kindly accept my appreciation for your great support.

DEDICATION

I wish to dedicate this project to my family and friends who encouraged me when writing this project.

ABSTRACT

This study was conducted to obtain information on the two main objectives identified as: establishing the extent to which Kenya attracts Tullow Company to invest in prospecting for oil and gas and to determine the challenges faced by Tullow Company when engaging in international business for oil and gas. To achieve the intended objectives four respondents were targeted and an overwhelming three responded. The research design involved a case study of Tullow Company; the study used primary data which was collected through face to face interview by the researcher. An interview guide was used to collect primary data from Tullow Company. The study findings established challenges faced by Tullow Company when engaging in international dealings and came up with this recommendations; improved infrastructural facilities. The future of supply and distribution of oil will be constrained by lack of adequate rail transport wagon and import handling and loading facilities. It was found that there were no clear policies of oil and gas exploration in Kenya making it difficult for Tullow Company to conduct its operations. Poor transport network was a major problem in accessing exploration sites. This calls for construction of roads in arid and semi-arid areas to ease accessibility and transportation of goods and services. In order for Kenya to boost investment climate infrastructure is very essential. The study recommends construction of a new refinery that will facilitate production of more than a hundred barrels of oil which will be used by Kenya, Uganda, Ethiopia and South Sudan. This is very important in encouraging foreign investors to invest in the energy sector. There should be community involvement and participation to provide an understanding of the intensions of the company, activities and objectives of the organization to the community. Education, Training and development on oil and gas should be emphasized to equip human resources with important skills and competence on exploration of oil and gas. The Kenyan government should invest heavily on security through, securing the borders, providing proper training to the military and the police force, increasing intelligence and other security agencies. Foreigners need to be confident while investing in a foreign country and thus the government should take all the necessary measures to ensure that foreigners feel safe when investing in Kenya. The study suggests further research in an international Company similar to Plc Tullow in terms of size and areas of intervention. Findings can then be compared to assess if there are any commonalities or unique factors. One of the limitations of this study was that some of the employees had little experience about Tullow Company and its operations locally and thus limiting this study to important information about the challenges they had faced. The other limitation was conflict between the Tullow Company and the local communities who felt that they had been left out during negotiation. Most of the residents lacked skills and expertise needed in oil and gas exploration. The study was also limited to an in depth case study of Plc Tullow Company hence the findings are unique to this organization and cannot therefore be generalized to be a representation of similar organizations in the industry. Finally, this study was limited to information it took quite a long period of time for Tullow Company to allocate time for interview. Most of the data was collected from assistant managers rather than the CEO /managing director whom the researcher targeted for the interview.

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IOC	International Oil Corporation
LAPSSET	The Lamu Port Southern Sudan-Ethiopia Transport
LPG	Liquidified Petroleum Gas
NNP	Net National Profit
NOC	National Oil Corporation

CHAPTER ONE: INTRODUCTION

1.1 International Business

International business and trade involves far more than just the exchange of money and products, it also includes the spread of knowledge and the exchanging of ideas. These aspects of international business are often neglected by the critics. “Over thousands of years, international business has contributed to the progress of the world, through travel, trade, migration, spread of cultural influences, and the dissemination of knowledge and understanding (including science and technology)” (Bhagwati, 2002).

International business is one of the primary sources of intercultural interactions that create opportunities for knowledge generation. Broda (2005) promoted the idea of international companies having the potential to generate and diffuse knowledge within the country where operations are taking place. Along similar lines, Becker (2003) proposed the concept that one of the biggest obstacles to development in the poorest countries of the world is the lack of a dynamic learning environment caused in part by the lack of international business activities in these regions.

Opportunities are growing for companies to do business globally. Even small businesses are claiming their piece of a global market as it expands into a borderless market place. Balber (2005) indicated that, an article entitled "How to Grow Your Business Globally" written by Dan Brutto for Businessweek.com published August 24, 2010 stated, "President Barack Obama's National Export Initiative, an ambitious plan to double U.S. exports within five years, is helping small businesses sell their products or services in new markets."Accordingly, this evidence shows that opportunities are growing for corporations and small businesses to expand globally, but the challenge is whether large corporations and small businesses are seeking to take their business internationally and compete in the global market (Bardouille & Balber, 2005).

Robertson (2005) indicated that numerous companies both small businesses and large corporations make strategic plans to take their business internationally because they want

to compete in the global market. Today, very few corporations are not participating doing business abroad. With the internet being a source for international networking and technology advancing rapidly to support a global economy, companies find opportunities to do business overseas a feasible and achievable goal. Hence, expanding a company internationally is not a new thing.

1.1.1 Tullow Company Plc

Tullow oil Plc is a multinational oil and gas exploration company founded in Tullow, Ireland with its headquarters in London, United Kingdom. It has interests in over 150 licenses across 25 countries with 67 producing fields and in 2012 produced on average 79,200 barrels of oil equivalent per day. Its largest activities are in Africa and the Atlantic Margins, where it has discovered new oil provinces in Ghana, Uganda, Kenya and French Guiana (Abdullahi, 2002).The Group is entering its next phase of growth with a major focus on Africa and the Atlantic Margins basin, where Tullow is already a dominant player following exploration success in the named countries.

Tullow's main production comes from six countries in Africa as well as the Southern North Sea and Asia.Ghana's offshore Jubilee oil field which was discovered in 2007 and started production in December 2010 is Tullow's largest discovery. In Kenya, the company discovered more than 250 million barrels of oil, at the Ngamia 1 and Twiga South wells in the Lokichar basin in North Eastern Kenya. It also made a discovery at Kenya's Etuko 1 well, while the Sabisa 1 well in Ethiopia encountered oil and heavy gas. The company, with partner Africa Oil, plans to drill about 10 wells in Kenya and Ethiopia to explore the Turkana Rift Basin (PWC, 2011).Oil and gas resources are among the few resources Kenya has that attracts international business Companies for instance Tullow. Global business has attributed to increased competition as more Companies seek opportunities for untapped resources (PWC, 2011).

1.1.2 Oil and Gas Prospecting

Kenya has become very active for oil exploration, with the entry of major companies including Tullow, BG Group, Apache, Africa Oil, Marathon, Total, ENI, Anadarko and Camac Energy.

Kenya as an economy revolves around the oil and gas sector since it exerts a huge influence on the economy as a key revenue earner. Oil and gas plays a critical role in maintaining prices of goods and services at their minimum levels. On the other hand, increased fuel prices may trigger high transport costs leading to increased prices of consumer goods and services. Oil and natural gas are important and dominant components of the present energy system (Roupaset al., 2011; Skouloudiset al., 2011).

The role of the future usage of oil and natural gas depends on the available resources, on the production technologies, on the future demand, on the development of alternative energy sources and the existence of reliable energy supply routers (Doukaset al., 2011a). A great degree of uncertainty exists, regarding how long the oil and natural gas resources will last. Undeveloped fields are in general less favourable than developed fields and have higher energy requirements and costs. Development in production technologies, like increased recovery rates, deep water production and low cost wells, can however make resources more profitable to extract (Abdullahi, 2002).

Moreover, oil and natural gas resources are limited and a technology shift reducing the dependency on these resources is necessary in order to enter into a more sustainable era (Flamos & Begg, 2010). The concerns refer to the impact on the world economy, particularly when the future availability of oil and natural gas shows deficiencies. According to Rhodes (2010) “the world could be heading for a catastrophic energy crunch that could cripple a global economic recovery because most of the major oil fields in the world have passed their peak production. This statement is a clear indication that oil is a valued resource, Abdullahi (2002) explained scarce oil resource as the main reason why most international companies are engaging in business with African countries in order to gain from oil and gas resources.

1.2 Research Problem

International business is increasingly becoming popular in Africa; western countries have been attracted to engage in international business with Africa. The use of modern technologies especially E-purchasing in international transactions has gained momentum making global business convenient and cost effective. Abdullahi (2011) argued that Africa has a wealth of resources for example: Oil and gas commonly found in some parts of West Africa. Kenya has recently attracted international business following recent discovery of oil in Turkana.

Many researchers have written and published their findings on various issues in the field of international business on oil and gas. PWC (2011) report indicated that there were about 163 international engagements globally in the Oil and Gas industry in the first quarter of 2011, the lowest level of Mergers & Acquisitions (M&A) activity since early 2009 and down by around 20% on the levels seen in 2010 albeit at higher than average deal sizes supported overall deal value.

Henry & Frank (2002) carried out a survey on the contribution of oil and gas companies on the economy. The report indicated that, close to 50% income of the economy is generated from oil and gas. Other researchers: Stevens (2005) concurred with above findings that oil and gas resources play a critical role in attracting international business .On the contrary, Clubley (1998) argued that despite the significant and strategic influence, empirical evidence suggests that oil and gas abundant economies are among the least growing economies.

Previous local studies, mostly the unpublished MBA projects have not looked into factors that attract international business when dealing in oil and gas. Most research studies have only focused on the effect of oil and gas to the economy. Akinyi (2005) in her study titled, “demand for liquefied petroleum gas (LPG) in Kenya” reported that in the short and long run urban population, domestic revenue, per capital GDP and inflation will be the determinant of demand of LPG. This study however cannot be relied on to give the

current demand for LPG since it is a reflection of what happened back in 2005. Recently, the demand for LPG could have been affected following the discovery of oil in Kenya.

A survey of the influence of competitive strategies on performance of oil firms in Kenya was carried out by Warigia (2009). This study revealed that the most commonly used competitive strategies in the industry are differentiation, market focus, diversification, product development and mergers and acquisition. Oluoch (2011) in his study titled, “Challenges of globalization and its effect on oil distributors at the Galana oil Kenya Limited” indicated that the challenges faced by marketers included: compliance with global regulations as opposed to national regulations. Ultimately it led to loss of revenue, fines and penalties being imposed on them and changes in the political and fiscal regimes in which they traded meaning that carefully laid out strategies would have to be re-thought and re-analyzed.

Therefore, the proposed study sought to address the following research questions: What factors attracted Tullow Company international business to invest in prospecting for oil and gas in Kenya? What were the Challenges faced by Tullow Company when engaging in international business in Kenya?

1.3 Research Objectives

- i. To establish the extent to which Kenya attracts Tullow Company to invest in prospecting for oil and gas.
- ii. To determine the challenges faced by Tullow Company when engaging in international business for oil and gas in Kenya.

1.4 Value of the Study

Since international business has become popular globally and most western countries have shifted their focus on Africa, they stand to benefit from the findings of this study because they will be able to know the challenges they are likely to face when they engage in international business.

To the government, the findings of this study will be resourceful in determining the factors that attract international business in Kenya, as well as taking the necessary actions to make Kenya's environment more conducive for international business.

To the academicians and researchers who are interested in doing research in this area may use these findings as a source of reference. Besides; the study will be a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The purpose of this section is to provide a critical evaluation of the available research evidence about the factors that attract international business to invest in prospecting for oil and gas. It includes a review of the various studies that have been conducted in international business and oil & gas industry. Among other areas reviewed include, motives for internationalization, factors that attract international business, international business in oil & gas and as well the challenges of international business in oil & gas industry.

2.2 Theoretical Foundation of the Study

Beckmann (1999) According to the location theory the location of the production is determined by the resources. The determining factors of the location choice are the cost of transportation and trade barriers. If the transportation costs are high then the production is located in the country or region where the product will be marketed. Another reason of such relocation is the high tariff rates that the host country applies. Some of the relevant factors that are important in deciding the viability of entry into a particular market include Trade barriers, localized knowledge, price localization, Competition, and export subsidies.

Dunning's eclectic paradigm has been regarded as one of the most important contribution to international business theories. The main proposition of the paradigm is that an international firm has to have some kind of advantage over local firms, before it will engage in international production. The principal hypothesis of the eclectic paradigm is that a firm will engage in international value-adding activities if the following three conditions are satisfied, the firm has net ownership advantages (O-advantages) over local firms. If the first condition has been satisfied, the international firm can make use of its international advantages (I-advantages) to further exploit its competitive advantages over local firms in the foreign market. If the above two condition are satisfied, it must be in

the interest of the firm to use some resources in the foreign country in combination with the ownership and internalization advantages; if not the firm would serve the foreign markets only by exporting to them. These advantages are called the locational advantages (L-advantages).

Therefore, firms' internationalization processes are determined by whether they can possess Ownership-advantages, Location-advantages and Internationalization-Incentive-advantages.

However, Dunning's Eclectic paradigm has not escape criticisms. Numbers of arguments have been set to strongly criticize this approach (Cantwell and Narula, 2003, Svetlicic 2003)

2.3 Motive for Internationalization

The internationalization of the firm is reflected in its process of international market expansion and investment over time which can be measured in its international sales and outward FDI. According to Bartlett and Ghoshal (1998), the main reason for the internationalization is that having worldwide operations not only gives a company access to new market and specialized resources, it also opens up new source of information and knowledge and broadens the options of strategic moves the company might make in competing with its domestic and international rivals. Internationalization can be also understood as a kind of business where national and cultural boundaries are crossed. It embraces not only international trade or foreign production but also transport, services, banking, technology or know-how and knowledge transfer (Sharma & Blomstermo, 2003)

Companies go global for many reasons, some reactive and some proactive. Restrictive trade barriers, for example, such as tariffs and quotas, are one reactive reason that makes exports to foreign markets too expensive, so companies often switch from exporting to overseas manufacturing. International expansion positively influences new ventures' survival, profitability, and growth. By entering international markets, new ventures acquire knowledge that can be used to build additional value-creating skills (Knight, &

Cavusgi, 1996; Ghoshal, 1987). Expanding globally allows firms to increase their profitability and rate of profit growth in ways not available to purely domestic enterprises (Hill, 2007). The main standard motives for internationalization are market seeking, resource seeking, efficiency seeking and strategic asset seeking (Buckley 1988; Dunning 1993, 1998).

Market seeking; the FDI theory suggests that involvement in foreign markets is strongly linked to the absolute size of the host market and the potential for market growth. Such market-seeking FDI is usually seen as a response to the costs of serving a foreign market at a distance. Resource seeking, Physical resource-seeking applies to transnational corporations seeking access to raw materials abroad, to obtain security of supply. Efficiency seeking, foreign operations to reduce input costs are strongly associated with manufacturing industry, e.g., lower labour costs in the foreign country. Strategic asset seeking, ' Strategic asset or capability seeking' (Dunning, 1993) describes attempts to secure the input of key elements in the production process such as technology, professional, managerial, and financial skills, knowledge of various types, and marketing expertise.

2.4 Factors that Attract International Business

A country's political atmosphere is an important factor that dictates international businesses engagement to not only oil and gas industries, but to all possible opportunities that a country would have for foreign investors. Oluoch (2011) stated that International businesses would not show interest in investing in politically hostile environments, and instead would shift their capitals to politically stabilized nations. The state of peace in a country would thus determine the willingness of international corporations to engage in a country's oil and gas industries.

Africa is one of the continents in the world with the cheapest sources of labour. Labour being a factor of production is very essential for the success of any business especially, international business. Warigia (2009) stated that "Companies that engage in global transactions may not be able to hire labor all the way from home therefore, they depend

on foreign labour. International companies are attracted to do doing business in Kenya due to cheap available sources of labor. Debora (2010) insisted that Africa nations are very welcoming. On the other hand, Stein (1997) said that Africa has more extracts for national resources than international companies.

Stein (1997) stated that “globalization of markets refers to the merging of national markets into one huge global market place”. Now selling internationally is easier due to falling barriers to cross-border trade. A company doesn’t have to be the size of these multinational giants to facilitate and benefit from the globalization of oil and gas markets. It is important to offer a standard oil and gas products to the worldwide.

An international business engagement calls for friendship and good relationships between countries. Kenya is one of the countries in Africa that welcomes foreign countries as well as giving them the necessary support that they need to conduct their business locally. Safadi & Stein (2011) explained that support is very important when two countries engage in international business. Gareth (2010) argued that African nations offer the best assistance to foreign countries in international transactions. According to Charles & Gareth (2012), the falling of barriers to international trade enables firms to view the world as an expanded market for oil and gas products. The lowering of barrier to trade and investments also allows firms to base production at the optimal location for that activity.

Technology is one of the key areas that have attracted international business globally. With the use of modern technologies especially e-purchasing and e-procurement international business has become convenient to transact at a cost effective means. Gareth (2012) stated that the world economies highly depend on modern technologies to transact business globally. Modern technologies for example, information communication technology (ICT) plays a critical role in international dealings especially through the use of phones. However, Charles (2012) argued that Companies can negotiate and strike a deal without necessary meeting physically. Technological changes have achieved advances in communication, information processing, and transportation technology and internet. The most important innovation has been development in the microprocessors

after that global communications have been revolutionized by developments in satellite, optical fiber, and wireless technologies, and now the Internet and the www (Frederick, 2011).

Infrastructural developments are very important in international business engagements. Fredrick & Charles (2010) insisted that poor infrastructure hinders international business since Companies face huge challenges in foreign countries whose transport means are poor. However, Stevens (2010) argued that ability to transact business paramount in any international engagement. If a company is able to transact international business successfully then that supersedes the challenges that a Company could have encountered as it seek to deliver international dealings.

Akinyi (2011) stated that energy is a vital resource in any business especially international dealings. Africa has recently attracted international business following the discovery of energy sources for example: geothermal power that generates electricity which facilitates company operations. Akinyi (2011) explained that energy is a scarce commodity and countries that produce these resources in large amounts stand to gain from international business. Oil and gas are crucial to the contemporary global economy and their prices are key components of economic forecasts and performance. According to Stevens (2005), crude oil and refined petroleum products constitute the largest single item in international trade, whether measured by volume or value. Thus, oil and gas are strategic resources in national, regional and global economies. Despite this significant and strategic influence, empirical evidence suggests that oil and gas abundant economies are among the least growing economies (Clubley, 1998).

This phenomenon is often conceived within the prisms of the “resource curse” and “Dutch disease” but both are manifestations of inefficient utilization of resources rather than the inevitable outcome of the availability of oil and gas resources. The Kenyan economy revolves around the oil and gas sector, in that it exerts a prominent influence on the economy as a key revenue earner. Frank (2011) argued that oil and gas resources have very high revenue yields due to increasing international demand, Henry (2006) in the

Progress and poverty addressed the need of the efficient use of the revenues to ensure effective utilization of domestic resources through robust macroeconomic policies and its significance in generating economic growth.

Economic growth of a country constitutes a long-term rise in capacity to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology and the institutional and ideological adjustment that it demands. According to (Kuznets, 1971) key macroeconomic indicators such as the gross national product (GNP), gross domestic product (GDP) and net national product (NNP) are used, among other economic parameters, as measures of economic growth performance of an economy.

Fadil (1985) argued that when crude oil production is not economically integrated with the rest of the economy, oil revenues tend to be divorced from the circular flow of income in the domestic economy. Economic growth can be attained through a regeneration mechanism that transcends the stock of oil and gas by enhancing the effectiveness of the factors of production as a reflection of positive technological change. Intensive value-adding oil and gas activities generate positive externalities to the entire economy through spill-over effects (Lax, 1983).

2.5 International Business in Oil and Gas

The big five Oil and gas companies are, Saudi Aramco producing 12.5 million barrels per day, Gazprom – producing 9.7 million barrels per day, National Iranian Oil Co. - 6.4 million barrels per day, ExxonMobil – producing 5.3 million barrels per day, Petro China- producing 4.4 million barrels per day.(Forbes 2013).International companies have always showed interest in both new and old oil and gas frontiers across the globe. The oil and gas sector emerged swiftly from the recent global economic downturn and is back on an upward curve. The robustness of the industry has surprised even some industry leaders and brought regained confidence to the sector. According to Barclays' 2012 Global E&P Capital Spending Update, global exploration and production spending is forecast to reach a record \$678 billion in 2013, a 10% increase over 2012 at \$614 billion, and up from \$556 billion in 2011, in what will be the fourth consecutive year of double-digit

worldwide investment growth since the downturn. Today's oil and gas business has unique characteristics that make it critical for companies to invest in a coordinated, holistic employee development effort.

PWC (2012) report indicated that there was high number of global oil and gas deal since 2008, and the highest in value terms since 2010. There was 524 global oil and gas deals in H2, totaling \$240.bn bringing the 2012 full year figures up to 915 deals totaling \$352.2bn. Deal volumes were up 23% on the prior year, but 21% off peak levels. This activity was driven by a significant rise in top tier deals, with 44 deals valued at over \$1bn compared to 31 in H1 2012. The majority of this was related to Rosneft's acquisition of TNK-BP and CNOOC acquisition of Canadian based Nexen for \$20.7 bn. According to Millett, Morgan & Mitchell (1992), the energy industry contends with a great amount of uncertainty and risk, and yet companies have to focus on the future to ensure financial and operational success. The debate about specific guidance for exploration, evaluation, development and production of oil and gas continues. However most of these debates focus on those areas that are of most interest to companies in the sector. The energy industry requires long lead times for new projects, and even though the current global economy is struggling, the world's population continues to grow (Clubley, 1998).

PWC (2013) Africa oil and gas Review analyses indicated valuable experience and views of industry players in Africa. The review indicated that oil and gas industry in Africa was poised for momentous growth due to recent large gas in East Africa, large gas finds in Tanzania and Mozambique and oil potential in Uganda and Kenya sparked flurry of exploration activity across Africa. Africa Supplies about 12% of the world oil, boasting significant untapped reserves estimated at 8% of the world proven reserves. The continent has natural gas reserves of 513-trillion cubic feet with 91% of the annual gas production of 7.1-trillion cubic feet coming from Nigeria Libya, Algeria and Egypt (PWC, 2013).A recent economic impact study found that the natural gas industry contributed more than \$380 billion to the U.S. economy in a single year and is responsible for 2.8 million American jobs (Exxon Mobil Corporation.2013)

2.6 Challenges of International Business in Oil and Gas Industry

The lack of established infrastructure, including pipelines, refineries, port facilities and transport link, to support East Africa's oil and gas industry is often cited as an impediment to its development. Considerable investment is certainly needed to complement exploration and, more importantly, production of oil and gas reserves. However, while this presents challenges for existing operators, it also offers considerable commercial opportunities, and is likely to be a major growth area over the next decade. (Control Risks, 2012)

Other oil company CEOs has stated their belief that there are more than ample supplies of oil and gas globally to meet future demand. But more than 80% of the world's oil and gas resources are in the hands of NOCs and host governments and are not currently available to IOCs. Some of these NOCs are moving forward to fully develop these resources and increase production. Saudi Aramco is the best example of this, but many other NOCs either are not doing so or are not doing so at sufficient levels. It is therefore critical that the IOCs be allowed to gain access to these resources as soon as possible and under reasonable fiscal terms so that they can apply their people, capital, and technology to the potential for increasing oil and gas production. (Cazalot, Marathon CEO)

The communities believed that the oil-producing companies should directly initiate development projects to ensure the transformation of their communities. They also expect the companies to compensate them for environmental degradation caused by their activities relating to oil and gas exploration and production.

Lessons from the Niger delta show the importance of effective community engagement by both governments and companies in oil-producing areas. While militancy on the scale witnessed in Nigeria is unlikely in East Africa, there can be no room for complacency. Oil-exploration activity has already been the target of attack in Ethiopia: the separatist Ogaden National Liberation Front (ONLF) in April 2007 killed 74 workers at a drill site during a raid on the Abole oil field in the Ogaden region. Such incidents are rare and are largely the result of exploration in a part of Ethiopia where the government has at times

struggled to exert authority. The situation in the Ogaden is improving, but as other East African oil and gas fields move into production, poorly handled community engagement risks provoking a hostile reaction, and even violence.(Enemaku, 2005)

Another major challenge is the availability of and increased costs for services across the board, including seismic, drilling, facilities, engineering, procurement, and construction (PWC, 2011)

Engagement with regional governments is one of the main challenges facing investors in the East African oil and gas sector. As the industry develops and companies seek to move from exploration to production, relations with host governments have come under increasing strain. Suspicion and, in some cases, barely disguised hostility have characterized the attitude of many officials in the Ugandan and Tanzanian governments towards companies. This wariness during contract negotiations stems from recognition on the part of governments of their inexperience in the sector. (Control Risks, 2012)

Exploration companies licensed to prospect for oil and gas in the Kenya's blocks are reluctant to do so for fear of discovering gas without a suitable legal and fiscal framework to commercialize the commodity which was last updated in 1986.(Kenya Energy and Petroleum Secretary, Davis Chirchir).Many oil companies especially the BG Group are reluctant to proceed with the drilling of exploration wells due to lack of natural gas terms in the current Model Production Contract which has a bias on oil terms.(Eugene,2013)Need for new, breakthrough technologies that can help find, develop, and/or produce more oil and gas. More than anything else, technology has been the driving force behind our industry's continued ability to deliver increased oil and gas production safely, efficiently, and in an environmentally sound manner.(IBM consulting services,2004)

The line between vested political interests and corrupt behavior is often blurred. Managing integrity risks is crucial to doing business successfully in East Africa, where corruption continues to blight the business environment. There are signs of improvement,

but the political will to stamp out corruption remains weak in most countries in the region. Uganda's oil sector has already been tarnished by allegations of bribery that emerged from leaked diplomatic cables. Although these have been categorically denied, they nonetheless cast an air of suspicion over the integrity of the government in its handling of contract negotiations and revenue management. Civil-society groups and the media are closely scrutinizing the behaviour of oil and gas companies, and any suspected foul play will provoke vigorous criticism. (Control Risks, 2012).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that will be applied in conducting the study. It discusses the research design, data collection procedures and instrument, determination of reliability and validity by data analysis techniques.

3.2 Research Design

The research design adopted for this study was a case study. A case study design was deemed suitable since it entail an analysis of a single unit of study desired as it provided focused and detailed insight to phenomenon that may otherwise be unclear. In this study, the focus was on factors that attract international business to invest in prospecting for oil and gas at Tullow Company Kenya Plc. A case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study (Young, 2000).A case study is an comprehensive study of a particular research problem rather than a sweeping statistical survey as it narrows down a very broad field of research into or a few easily researchable area.

3.3 Data Collection

The study used primary data which was collected through face to face interview with the researcher. An interview guide was used to collect data from the Company. The content of the interview guide was divided into three sections which covered the areas on the background information of the individual, factors that attract international business to invest in prospecting for oil and gas in Kenya and challenges faced by companies in international operations. The respondent consisted two senior management team and two members in the operations management department. These respondents were highly considered since they were deemed to understand the operations of the Company as well as international dealings in oil and gas.

3.4 Data Analysis

The data collected was analyzed by use of content analysis techniques since that nature of the data was qualitative. Content analysis is the systematic qualitative description of the composition of the object or material of the study. The information will be analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy of the content analysis. This technique was used because it will assisted in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trend.

Content analysis is a widely used qualitative research technique employed to interpret meaning from the content of text data. The data was compared with theoretical approaches cited in the literature review in order to establish areas of agreement and disagreement in order to ascertain the facts.

CHAPTER FOUR: FINDINGS AND ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This study sought to obtain information on the two main objectives identified as: establishing the extent to which Kenya attracts Tullow Company to invest in prospecting for oil and gas and to determine the challenges faced by Tullow Company when engaging in international business for oil and gas. To achieve the intended objectives four respondents were targeted and an overwhelming three responded. Respondents interviewed were: operations manager Tullow Company, Project manager and human resource manager.

4.2 Demographics

An in depth analysis of the organization was done and the findings established that most of the respondents were degree holders from distinguished universities globally. The respondents had a better understanding and experience of challenges faced by international companies when engaging in international dealings as well as factors that attracted Tullow Company to invest in prospecting for oil and gas in Kenya.

In respect to the length the respondents had served the organization, the findings established that three of the respondents had worked in Tullow Company for more than three years while one of the respondents had worked for two years. In their capacity as managers, they had a better understanding of the operations of the company and challenges that Tullow Company faced when engaging in international dealings in prospecting for oil and gas.

In regard to what the respondents liked best about the positions held, the findings established that most of them enjoyed flexibility in the work place. The respondents agreed that the most interesting thing about their job was traveling and interacting with different people. Most respondents indicated that they enjoyed their work since it entailed exploration and traveling to different countries.

The respondents were asked to comment on what they liked least. The findings established that most of the respondents were not settled due to constant travelling from

one country to another. A few cited cases where they had shifted with their families to more than five countries within a period of five years making it difficult for them to settle. According to the findings, most of the respondents agreed that it was difficult to settle down due to the nature of their job.

The findings also established that most of the respondents (3) did not like the first weeks of most countries in Africa which they inhabited. The findings revealed that most employees faced quite a number of challenges for example; language barrier before they adapted to the new environment. Culture was a major problem to most of the employees in Tullow since African culture is different from the western culture.

4.3 Factors that Attracted Tullow Company to Invest in Prospecting for Oil and Gas

In respect to the factors that attracted Tullow Company to invest in prospecting for oil and gas, it was found that oil and gas highly attracted Tullow Company to invest in Kenya. The respondents agreed that oil and gas are scarce resources that highly contribute to growth and development of an economy. This was evidenced following the discovery of oil and gas in Kenya that has tremendously improved international business with other countries globally.

In enhancing international business, the Kenya government has taken major steps to ensure that systems and processes are in place to boost international business. From the findings, the respondents indicated that the government was very supportive in providing an enabling environment for investors through providing adequate security. Most of the respondents indicated that their security was tight both in their place of work and their exploration points. This made it easy for Tullow Company to continue drilling oil without unnecessarily disruptions due to security problems.

The second step that Kenyan government took to provide a conducive environment for foreign investor is removal of trade barriers and strengthening relationships between countries making it easy to transact international business between countries. Most of the respondents agreed that Kenya had maintained trade relations locally and internationally and this highly attracted international companies to come and invest in Kenya. One of the

respondents cited that many Kenyan products have access to other markets in Europe, USA and Asia through the port of Mombasa and the new port that will be built through the LAPSSET project.

From the findings, some respondents (2) indicated that the other step that the Kenya government has taken to provide a conducive atmosphere for foreign investors is welcoming overseas-owned companies looking to do business with Kenya. Kenya Investment Authority is funded by the Kenya government and demonstrates Kenya's commitment to attracting inward investments by providing free, confidential services to prospective investors. Most of the respondents noted that there was a number of tax based incentives available in Kenya, mainly covering exemptions from duty and VAT on capital equipment and machinery to be used in the investment project. Other incentives include capital deductions and investment allowances. The findings further established that incentives were granted on a case by case basis and are approved by the Ministry of Finance through Kenya revenue and ministry energy and petroleum. KenInvest also assisted in applying for the incentives upon request from the investor.

The findings found that the government had a policy on overseas company doing business in Kenya. Most of the respondents (3) affirmed that Kenya has long recognized the benefits of inward investments and has welcomed overseas-owned companies looking to do business in and with Kenya. In reference to the findings, Kenya Investment Authority was funded by the Kenya government and demonstrates Kenya's commitment to attracting Foreign Direct Investment (FDI) investments by providing free, confidential services to prospective investors.

From the findings, one of the respondents indicated that Kenya has concluded Avoidance of Double Taxation Agreements with; United Arab Emirates, United Kingdom, Germany, India, Canada, Norway, Sweden, Denmark, Zambia, France, South Africa, and is currently negotiating a number of others with various countries to provide an enabling environment for foreign investors. One of the respondents pointed that Kenya concluded investment promotion and protection agreements with France, Finland, Germany, Italy, Netherlands, Switzerland, China, Libya, The Islamic Republic of Iran, Burundi and the

United Kingdom, and is currently negotiating a number of others with various countries with the intention of broadening its international relations to attract foreign investors.

The respondents were required to comment whether infrastructure enhances international business for oil and gas. The respondents unanimously agreed that infrastructure was vital for the success of any international dealing. Most of the respondents (3) indicated that roads and telecommunication was critical for enhancing engagement and transactions in an efficient and effective manner. Some of the respondents cited cases where international business was impossible due to poor infrastructural facilities.

In respect to cheap labor, three of the respondents indicated out that there was availability of affordable labor due to our quality education system of which three responds Kenya education provided competitive employees compared to most of the Africa countries;. The findings established that managers run their operations at a efficiently compared to some of countries especially the West where they had explored oil and gas as a result affordable labor. Though there were no available welders and experienced geologists who are required to have high skills. It was evident that the demand by international oil companies to explore oil and gas in Africa had increased tremendously due to availability of affordable labor in most parts of Africa that had oil.

The respondents were asked to comment whether technology contributed to international business in Kenya. From the findings, the respondents unanimously agreed that technology was an important factor in international business engagements when making transactions for example e-purchasing and during oil and gas exploration. Most of the respondents pointed out that communication were faster through emails or telephone calls. Through modern technologies, international business especially in oil and gas was made easy since international companies used modern technology and equipments to explore oil and gas within a short period of time and thus saving a lot of costs and energy.

On whether globalization leads to international business in Kenya, the respondents(2) agreed that globalization boots international dealings through process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. One of

the respondents indicated that globalization does not necessarily lead to international business. He was of the view that discovery of scarce resources in a country was a major contributor to international business engagements.

On the mechanisms the government Kenya government uses to enhance foreign direct investment is through removing trade barriers and regulations. According to one of the respondents for a country to attract foreign direct investment it's important to remove international trade barriers between countries to boost global trade. Two of the respondents indicated policy on overseas company doing business in Kenya played an important role in enhancing foreign direct investment.

4.4 Challenges faced by Tullow Company when engaging in international business

The respondents were asked to comment whether lack of modern technologies was a major hindrance to international business. Most of the respondents (3) indicated that modern technology was a major problem here in Kenya that constrained efficiency of drilling of oil by Tullow Company. The respondents pointed out that the level of technology in Kenya was quite low. From the findings, the casual laborers hired by Tullow Company had very little knowledge of tools, equipments techniques, systems and techniques for oil and gas explorations and mapping. The findings also revealed that internet sources were accessible only in the urban centers. In some areas like Turkana lacked telephone and internet for effective communication. This negatively affected efficiency of operations by Tullow Company since it was difficult to connect between the head office and exploration sites. One of the respondents also pointed out the need for improvement for highway weighing bridge to allow efficient transportation of exploration equipments to the sites.

The respondents were asked to comment whether language barrier was a problem to international companies when engaging in international business. The respondents agreed that language barrier was a major problem at exploration sites which hindered effective exploration of oil and gas in Kenya. Most of the respondents (3) indicated that it was challenging to interact with local communities in arid areas like Turkana since most of

them could only speak using their mother tongue. This posed a major challenge when seeking for labor since it was difficult to communicate and agree. This was detrimental to the process of exploration oil by Tullow Company since sometimes the employees lacked casual laborers to help them in carrying out activities at their exploration site.

The respondents were asked to comment the extent to which lack of government support affect international business. The respondents unanimously agreed that government support was essential in any international engagement. Two of the respondents pointed that the government of Kenya was working tirelessly to provide security at exploration point. One of the respondents indicated that the government had failed to provide adequate support especially in providing support in intervening with conflict between the Tullow Company and local community.

The respondents were asked to comment the extent to which cultural differences affect international business. Three of the respondents pointed out that culture shock had detrimental effects on the efficiency of employees as they tried to adapt with the new culture of life. For instance the respondents cited cases of corruption in Kenya through bribe and misuse of power this is because most of them felt it its morally wrong and unethical.

The respondents were asked to comment on the effect of poor infrastructure to international business. Most of the respondents(3) unanimously agreed that that even though a lot of work has been done on roads and transport network in urban areas, arid and semi-arid areas for instance Turkana Ngami two had completely been neglected. According to the findings, it was found that the employees of Tullow Company faced challenges in trying to access Turkana Ngamia two and other exploration sites. Two respondents cited cases of poor network in Turkana which hindered effective communication and thus negatively impacting on the efficiency of exploration of oil and gas by Tullow Company in Kenya. In some instances, the employees had to travel for long distances get network access whenever they needed to make calls to the head office in Nairobi and London.

The respondents were asked to comment on the effect of insecurity to international business. Three of the respondents cited cases where they had forgone exploration of oil and gas due to insecurity issues. The findings revealed insecurity cases especially in exploration sites where the local community attacked Tullow Company demanding for money and food. Two respondents cited cases where the Turkana community attempted to steal exploration equipments from them. One of the respondents pointed out that terrorism was a critical security issue that negatively affected international business in oil and gas in Kenya following the West gate this year.

The respondents were asked to comment on the effect of politics to international business. According to the respondents the political landscape of a country is important when engaging in international business. One of the respondents indicated that if Kenya was politically unstable, it would have been difficult for Tullow Company to transact any dealing with Kenya. Most of the respondents (3) agreed that political stability was a key factor when Tullow Company was prospecting for oil and gas in Kenya.

4.5 Discussion

From the findings, it was found that although Kenya provided a conducive environment for Multinational oil and gas companies, Tullow Company faced various challenges when engaging in international dealings in prospecting for oil and gas for example: poor infrastructure, community hostility, political instability, lack of clear oil and gas exploration policy and bureaucracy in the government. This finding seems to agree with location theory which indicates that a firm has to take into consideration some relevant factors in deciding the viability of entry into a particular market. According to this theory, to successfully occupy a position in the market, a firm has overcome trade barriers; acquire localized knowledge in the market, price localization to gain a competitive edge against its competitors.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This final chapter of the study chapter focused on the summary of the research findings, recommendations, limitations of the study, suggestions for further research and conclusions. The findings were presented in respect to the main objectives which were to establish the extent to which Kenya attracts Tullow Company to invest in prospecting for oil and gas and to determine the challenges faced by Tullow Company when engaging in international business for oil and gas in Kenya.

5.2. Summary of Findings

The main objectives of the study was to establish the extent to which Kenya attracts Tullow Company to invest in prospecting for oil and gas and to determine the challenges faced by Tullow Company when engaging in international business for oil and gas in Kenya. Results of the study identified the following challenges as impediments to successfully attract Tullow Company to invest in prospecting for oil and gas. It is evidenced that there was lack of infrastructure in Kenya which included pipelines, refineries, modern port facilities and transport link, to support East Africa's oil and gas industry is often cited as an impediment to the current and future challenges if the government concerned don't put their energy together. Considerable investment is certainly needed to complement exploration and, more importantly, production of oil and gas reserves.

According to the findings, it was found that the employees of Tullow Company faced challenges in trying to access Turkana exploration sites. Two respondents cited cases of poor network in Turkana which hindered effective communication and thus negatively impacting on the efficiency of exploration of oil by Tullow Company in Kenya. Equipments could take days on the road as a result of poor infrastructure. In some instances, the employees had to travel for long distances get network access whenever they needed to make calls to the head office in Nairobi.

With regard to language barrier, the findings established language barrier hindered effective exploration of oil and gas at the site and also negotiating with the locals. Most of the respondents (3) indicated that it was difficult to interact with local communities in arid areas like Turkana since most of them could only speak using their mother tongue. This posed a major challenge when seeking for labor since it was difficult to communicate and agree.

From the findings, it was evident that Kenyan security was not tight. Two respondents cited cases where the Turkana community attempted to steal drilling equipments from them. From the findings, it was revealed that terrorism was a critical security issue that negatively affected international business in oil and gas. The communities at the exploration site are used to cattle rustling using guns, As a result of this Tullow Company employees felt unsafe during the daily activities at the exploration site.

Bureaucracy in government hindered operations of Tullow Company. In reference to respondent number 3, it was clear that the government took so much time to respond to the demands of Tullow Company during the negotiations and consultation on their operations.

According to the respondents the political landscape of a country is important when engaging in international business. One of the respondents indicated that it would have been difficult for Tullow Company to transact any dealing with Kenya if it was politically unstable. Most of the respondents (2) agreed that political stability was a key factor when Tullow Company was prospecting for oil and gas in Kenya. For many years Kenya has been a peaceful country compared to some of the Africa countries apart from 2007/08 post election violence.

5.3 Conclusions

The study concluded that the demand for oil and gas resources has attracted many international companies seeking to explore oil and gas in Africa.

The recent discovery of oil and gas in Kenya by Tullow Company has attracted international business amongst multinational companies due to the increasing demand for oil and gas resources globally. Henry & Frank (2002) reported that close to 50% income of the economy is generated from oil and gas. Oil and gas resources play a critical role in attracting international business due to its multiple purposes which is indispensable in any economy. There was consensus from the respondents that oil and gas were the main reason that attracted Tullow Company to engage in international dealings in Kenya. From all the respondents interviewed, all of them arrived at the conclusion that government support and infrastructure were indispensable in enhancing successful dealings and efficient exploration of oil and gas. This view was supported by the fact that government support was one of the key factors that attract international business.

From the second objective of the study, the findings revealed that Tullow Company faces various challenges when engaging in international dealings in prospecting for oil and gas for example: language barrier. From the findings, employees of Tullow Company were unable to interact with local communities due to language barrier making it difficult for them to engage the community in their operations. The other challenge was insecurity from the findings; the study established that most of the local community had firearms which threatened security of the operations at exploration sites.

The local communities lacked expertise and skills needed for exploration of oil and gas by Tullow Company as a result of this few locals were given a chance to work for Tullow company. This did not go well with the local communities because they were demanding employment at the explorations sites. Tullow Company has gone ahead to encourage some local communities to undertake oil and gas courses by providing scholarships abroad.

Recently, Tullow Company has discovered more oil deposits in some areas in Kenya which has created the need to construct a modern refinery with a capacity of more than a hundred thousand barrels of oil per day.

On the other hand, LAPSSSET project should be implemented by establishing connectivity between exploration site, refinery and Indian Ocean for exportation of oil and gas for future export. This calls for huge investment in finances, infrastructure, goodwill and political support.

5.4 Recommendations

This study recommends improved infrastructural facilities. Supply and distribution of oil has been constrained by lack of adequate rail transport wagon and import handling and loading facilities. This calls for construction of roads in arid and semi-arid areas to ease accessibility and transportation of goods and services. In order for Kenya to boost investment climate infrastructure is very essential.

The study recommends construction of a new refinery that will facilitate production of more than a hundred barrels of oil and gas per day which might be used to refine Kenya, Uganda, Ethiopia and South Sudan oil and gas. This is very important development in encouraging foreign investors to invest in the energy sector.

The study recommends community involvement and participation. Communities should understand the intentions of the company, activities and objectives of the organization to the community. This can be achieved through community meetings/dialogues and carried out sensitization meetings. The company should provide basic services such as boreholes, mosquito's nets, school materials for students as well as helping renovate community schools.

The study also recommends necessity of a clear mining policy by the Kenyan government to guarantee an enabling environment for international dealings when engaging and attracting international businesses. It is imperative Business partners should be fairly treated and strengthen ties and relationships in international business. With a stable mining policy investors can invest locally without hindrances, Kenya can be able to expand its market globally through attracting foreign investors.

Education, Training and development on oil and gas should be emphasized to equip human resources with important skills and competence on exploration of oil and gas. This can be done by providing skills on upstream, midstream and downstream too.

This will create job opportunities locally and reduce expatriates therefore broadening links between international organizations and local citizens.

The Kenyan government should invest heavily on security through, securing the borders, providing proper training to the military and the police force, increasing intelligence and other security agencies. Foreigners need to be confident while investing in a foreign country and thus the government should take all the necessary measures to ensure that foreigners feel safe when investing in Kenya.

5.5 Suggested areas for Further Studies

It would be interesting to carry out further research in an international Company similar to Tullow Company in terms of size and areas of intervention. Findings can then be compared to assess if there are any commonalities or unique factors.

Further studies can be conducted using a cross sectional research design involving many international companies to find out whether there any differences in terms of findings or unique factors.

5.6 Limitations

It was such a difficult task for the researcher to convince the respondents to participate in the study. Most Oil and gas Multinational Companies are known to work under very strict confidentiality in order to secure any unauthorized access to information. Most of the respondents agreed to participate on condition that the information will not be divulged to any other party other than for academic purposes only.

The study was also limited to an in depth case study of Plc Tullow Company hence the findings are unique to this organization and cannot therefore be generalized to be a representation of similar organizations in the industry.

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APPENDICES
APPENDIX I: RECOMMENDATION
LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE... 31/10/2013

TO WHOM IT MAY CONCERN

The bearer of this letter Henry Some

Registration No..... DG1162094/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: INTERVIEW GUIDE

Goal of the interview Process

To establish the factors attracting international business to invest in prospecting oil & gas in Kenya and challenges faced by Exploration and production Companies.

Interview questions

The following sections provide sample questions to be used in evaluating factors that attract international business to invest in prospecting for oil and gas.

A. Respondent Background interview

1. What is the highest level of education you have achieved?
2. How long have you worked in this organization?
3. What do/did you like best about the positions/ you have held?
4. What do/did you like least?
5. Have you worked in any other country apart from Kenya?
6. If yes, which one?
7. What is the business environment comparison of the two or three countries?

B. Factors attracting Tullow Company to invest in prospecting for oil and gas

1. What extent do availability of oil and gas resources attracts international business?
2. In enhancing international business, what steps is the government taking to provide a conducive atmosphere for foreign investors?
3. Does a Kenya infrastructure enhance international business for oil and gas companies?
4. Is cheap labor in Kenya a key factor in attracting international business for oil and gas?
5. Do modern technologies contribute to international business in Kenya?
6. Does globalization lead to international business in Kenya?
7. What mechanisms does Kenya government use to enhance foreign direct investment?

8. In encouraging foreign investors to invest in Kenya, what support does it provide to international companies?

C. Challenges faced by Tullow company when engaging in International Business

1. How has Kenya infrastructures affected your operations?
2. Is language barrier a problem to your activities?
3. What extent does lack of government support affect operations?
4. How do cultural differences affect operations in Kenya?
5. What threat does poor infrastructure cause to operations?
6. What challenges do insecurity problems cause to operations?
7. Do political factors have a negative impact your operations?
8. Do have a good relation with community around where you undertake you exploration?
9. How does Kenya exploration policy affect your operations?
10. To what extend has corruption affected your operations?