

## Research Article

### Assessing the Relationship between Human Resource Strategies and Local Content in Tanzania Oil and Gas Industry

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**Abstract:** Localisation of workforce is the major driving force for Human Resource Strategies in the OG Industry. However implementation of local content policy in the industry is facing major challenges. This study focused on assessment of HR strategies used in implementing the localisation in OG industry and also to determine the factors affecting localisation of Human Resource in the industry. Four case studies selected from the industry were employed to collect in-depth information. The study finds that all of the cases studied companies seem to be committed to local content policy. However it was observed that the practicability of their commitment to local content compliance was facing challenges during the implementation as there is a lack of locals with the needed qualifications in the industry, there are no local training institutes specialized in Oil and Gas, also many of the companies in the industry in Tanzania are new and some in early stages of their operations. It was further observed that local businesses are facing the same challenges of qualifications of locals and their business in rendering the services as per international or desired standards. Lack of localisation related HR Strategies and Government system support and commitment to the localisation seems to be the main factors affecting the localisation of Human resource in Tanzania. So in order for the Local content to be achieved, Human Resource strategies has to be localisation related and the Government has to be fully committed and support the localisation in the industry.

**Keywords:** Human resource strategies, local content, localisation, oil and gas industry

## INTRODUCTION

The Human Resource discipline is becoming a central concept to any organization today. It's a saying that the best asset that most organizations have are their people. More companies in the Oil and Gas (OG) sector are now recognizing the importance of Human Resource (HR) in the entire value chain. However HR shortages are an issue throughout the global oil and gas industry that has the potential to shake the foundations of the industry and at the same time, rapid technological change is demanding new kinds of workers with far more sophisticated and technical training and skills than have been required by oil and gas professionals in previous generations (E and Y, 2011). In order for OG companies to achieve long term success they must demonstrate exceptional performance in HR functions included in organisation's HR strategies.

HR strategies are internally consistent bundles of human resource practices (Dyer and Reeves, 1995) with the aim of articulating what an organization intends to do about its human resource policies and practices now and in the longer term (Fombrun *et al.*, 1984 as cited in Armstrong, 2006) that business and managers should perform well in the present to succeed in the future. HR strategies vary depending on type of the

organization/industry (Armstrong and Baron, 2002; Armstrong and Long, 1994 as cited in Armstrong, 2006). Two basic types of HR strategies can be identified:

- General strategies such as high-performance working
- Specific strategies relating to the different aspects of human resource management such as recruitment, training and development and succession planning

Although there are several specific types of HR Strategies but for the sake of this study we are going to look into recruitment, training and succession planning as they are related directly with local content of oil and gas industry in Tanzania. It is also important to remember that HR strategies are best designed and implemented for a particular job or a set of jobs. Few organization manage their clerical workers the same way they manage their senior executives, each group is recruited differently, is selected according to different criteria, attends different training programs (Wright, 2008) so as in Oil and Gas industry. In order to ensure that organization has the right people with the right skills doing the right things, HR strategy suggest that

there are some best practices including; recruiting large pools of applicants that enable you to be more selective, using valid selection tests to assess the skills of the applicants, providing substantial training to upgrade or maintain skill levels.

Most recently, Human Resource localisation has received attention and has been a focus of many countries initiatives (Williams *et al.*, 2011). Human Resource localisation is a significant staffing consideration which refers to the extent to which jobs which originally held by expatriates are filled by local employees who are competent (Law *et al.*, 2009). However, localization is effective only if local employees are competent to perform the jobs originally performed by expatriates (Wong and Law, 1999).

Localization programmes have become a key feature of Human Resource Management in the Middle East, with countries such as Oman, Saudi Arabia and the United Arab Emirates adopting politically led nationalization initiatives (Rees *et al.*, 2007). Also the nationalization of human resources has been a major objective for many transnational corporations (TNCs) in the People's Republic of China (Law *et al.*, 2009). Although localisation is implemented in these countries, recruitment, development and retention of competent and high-performing local employees continue to create problems for foreign firms and there is a little evidence on how localisation process should be managed (Wong and Law, 1999).

In a study on localisation policy in Saudi Arabia, recruitment and training was found as the powerful determinants of localisation success (Alanezi, 2012). It is suggested that localization is likely to proceed at a much slower pace than its main advocates may wish or anticipate and that there are practical, cultural and strategic factors which may and perhaps should, inhibit rapid localization. Such factors range from the lack of suitably qualified local managers, to control and surveillance functions and expatriates' roles as trainers, co-ordinators and relatively neutral 'outsiders' (Gamble, 2000).

Emphasizing the role of HR is more important in the Oil and Gas sector as localization of the workforce is a major driving force. Tanzania is looking into implementing local content policy which is facing a major challenge of local talent and management of influx of talented engineers, replacing ageing workforce, talent shortage, along with other recruiting issues creates a big challenge for OG's HR decision makers (United Republic of Tanzania (URT), 2014; 2013; Askew, 2012).

The National Energy Policy of 2003 state the concept of local content which is defined by Local Content Policy of 2014 as the added value brought to a host nation through the activities of the oil and gas industry which can be measured by: workforce development, through employment and training of local

workforce; and investments in supplier development through developing and procuring supplies and services locally. So in order for Tanzania to benefit from her Oil and Gas richness, the challenges of resources including Human Resource in the sector in terms of level of knowledge, competencies and experience to successfully exploit and manage the natural resources, must be recognised, faced and conquered (Simbachamwene, n.d; Simbakalia, 2013).

Efforts of putting local employees into OG sector in Tanzania started from post independence era, however the little was done to oversee this (ESRF, 2009). It was during Arusha declaration era where there was localisation of all modern socio-economic production entities the Tanzania Petroleum Development Corporation (TPDC) was established to oversee management and production of OG, however its functionality was affected by political interference and direct government involvement.

During economic crisis era in 1980's, drilling started in Tanzania with Songo Songo and Mnazi Bay gas fields and with introduction of series of reforms, by 1995 international companies acquired exploration licences (Antrim and CanOp of Canada, Gulf Western Mining of Cyprus and Ndovu Resources of Australia) which are poised to deliver a optimal rate of return for their stakeholders while creating minimum social and economic opportunities for the people of Tanzania (ESRF, 2009).

Up to December 2012, there were 26 Production Sharing Agreements signed with 18 oil exploration companies in Tanzania. Despite these registered developments, the infant gas industry in Tanzania is facing a number of challenges including availability of human resource with the requisite skills, attitude, discipline and knowledge of the natural gas industry (URT, 2013).

Also Tanzania policy and legal framework does not facilitate optimal utilization of local Human Resource in the OG industry as the adopted approach through PSA that requires citizens to compete in the labour market on the basis of their skills and work experience of which many Tanzanians do not have (United Republic of Tanzania (URT), 2014; ESRF, 2009), so there is a limited chance for locals to be recruited and developed in the oil and gas industry in Tanzania (by 2006, only 0.10% employed in the industry). Even though the government developed five pillars in National Gas Policy (2013) in order to overcome challenges the sector is facing, none of them is ensuring the employment of local talents. Therefore this study assessed the relationship between Human Resource Strategies and Local Content in the OG industry in Tanzania.

The focus of the study was to assess the relationship between HR strategies and local content in Tanzania's Oil and Gas industry which is the new

phenomenon with limited exposure. Specifically it assessed the HR strategies used in implementing the localisation of oil and gas activities in the sector and determined the factors affecting localisation of HR in oil and gas industry.

### **OVERVIEW OF HUMAN RESOURCE AND LOCAL CONTENT IN OIL AND GAS INDUSTRY**

The Model Production Sharing Agreement (MPSA) of 2013 suggest the “Local Content” as means the quantum of composite value added to, or created in, the economy in Tanzania through the deliberate utilization of Tanzanian human and material resources and services in the Petroleum Operations in order to stimulate the development of capabilities indigenous to Tanzania and to encourage foreign investment and participation, without compromising quality, health, safety and environmental standards.

**Local recruitment, training and education:** Local content provisions provided in Article 18 and 19 of MPSA (2008) detailed the usage of Tanzania Resources and Employment, Training and Transfer of Technology (Tordo *et al.*, 2013). Also Article 20 and 21 of the MPSA (2013) insists that the unskilled manpower requirement is reserved for Tanzanian nationals only and to employ and give opportunities to Tanzania nationals in order to give effect to the Law and in the conduct of the Petroleum Operations, the Contractor shall employ Tanzanian citizens having appropriate qualifications to the maximum extent possible. However these local content requirements are so far not yet adopted into any effective contract also the provisions allow for alternative sourcing if the local market is unable to meet the standards and quantities demanded by the industry (United Republic of Tanzania (URT), 2014).

PSA insured that a company will be operating in Tanzania’s best interest and has a plan for employment having appropriate qualifications to the maximum extent possible and training of local talents which must be implemented within six months of the grant of development licence. And transfer of management and operations function to Tanzanian must be done within five years of commercial operation (Freshfields Bruckhaus Deringer, 2013). Although there is progress through Marshal Plan and Natural Gas Development Road Map of 2013 to ensure acquisition of knowledge, skills and experience is underway, still training institutions have shortage of experienced trainers and training facilities for oil and gas industry (United Republic of Tanzania (URT), 2014).

As provided by the local content policy, OG contractors should prepare Annual Recruitment and Training Programme to be revised annually which include scholarships for Tanzanian nationals only,

industrial training for students and other financial support for education. Operator shall also facilitate recruitment and the training programme and provide field training in all aspects and phases of petroleum activities and as many staff categories including senior management positions, supervisory positions, skilled positions and semi/unskilled positions (United Republic of Tanzania (URT), 2014).

In enhancing transparency and effectiveness, scholarships and employment opportunities will be publicly advertised and give preference to the employment of citizens of Tanzania who have the requisite qualification, competence and experience required to carry out the required work. In case expatriate is employed, succession plan should be presented as a prerequisite for work permit which is non renewable with limited duration (United Republic of Tanzania (URT), 2014).

As countries develop and the industrial sector expands, more sophisticated skills become necessary the same as Tanzania develop in OG industry, the need arise for development of skills especially of highly technical and senior levels, in professional disciplines such as geosciences and various forms of engineering, as well as mid-level technical and managerial positions (Tordo *et al.*, 2013). Therefore investing in local human resource development is essential to the success and sustainability of the local industrial and service capacity and needs to be carefully paced through the close collaboration between industry and governments (CRES (Centre des Recherches Entreprises et Sociétés), 2008).

However training programs fail to reduce the skills gap due to the lack of an adequate infrastructure, scarce teaching personnel and Government system support. For the time being Tanzania can be considered neutral on local content, providing some indication that local recruitment and local sourcing is preferable, but with few incentives or obligations to drive the policy (Tordo *et al.*, 2013).

**Local supply of goods and services:** Local content is utilised to strengthen and develop local supply industry. Sourcing of local goods and services has to be based on the compliance with competitive market principles on price, quality and delivery (Tordo *et al.*, 2013). Article 20 of MPSA (2013) provides that purchase Tanzanian goods, services and materials provided such goods and materials are of certified standard and quality in accordance with Tanzania authorities; give assurance to Local Enterprises in respect of prompt payment for goods and services actually provided for Contractor and its Sub Contractors both foreign and Local; make use of Tanzanian service companies and contractors, where services of certified standards are available from such contractors at competitive prices and on competitive terms; and give preference to Tanzania companies and

by ensuring access to all tender invitations and by including high weighting on local value added in the tender evaluation criteria. However again is the issue of Tanzanian companies failure to offer goods and services according to competitive standards in terms of quality and delivery due to lack of exposure of needs of the industry and support from the Government system.

### **THEORETICAL PERSPECTIVE**

There is paucity in the literature on localisation of human resource especially in Tanzania; this study urges further research in the theories and implementation of localisation of human resource and related aspects specifically in Tanzania so as to build this gap.

**Social Exchange Theory (SET):** Fundamental principle of SET is that human behavior is an exchange of rewards between actors. Exchange has been a central research drive in relational exchange between actors in business. It treats the exchange of benefits, notably giving others something more valuable to them than is costly to the giver and vice versa as a phenomenon informing all social life (Zafirovski, 2005). The basic assumption of exchange theory is that individuals establish and continue social relations on the basis of their expectations that such relations will be mutually advantageous.

According to the study conducted by Lambe *et al.* (2001) firms evaluate economic and social outcomes from each transaction and compare them to what they feel they deserve. Firms also look for additional benefits provided by other potential exchange partners. The initial transaction between companies is crucial to determine if their relationship will expand, remain the same or will dissolve. Repeated exchanges allow a network to evolve into a group that continues to bind the partners together in a network.

The scarcity of local resources determines power distribution in exchange networks. SET's key insights in this respect are the equation of power with resources or wealth and the association between power and dependence. As seen above, SET considers highly its contribution to the theoretical analysis of power and relationship between actors in business which justifies and clarifies how the theory fits into this study.

However the theory of economics shows that a firm's incentive to comply with regulations is a function of the cost of both compliance and noncompliance. Compliance costs include the expense of applying the regulations, while noncompliance costs are related to the probability that the regulator will detect the lack of compliance and the size of the penalty that will be imposed (Tordo *et al.*, 2013).

When a country chooses to impose or encourage general local content requirements compliance to companies to further its local content objectives implementation is likely to be ineffective if companies

think that promised, subsidies, or privileges may be voided, or no penalty or a discretionary or negotiable penalty is associated with lack of compliance. Government may establish a policy but companies may decline to implement if they believe that the policy is not credible as credibility problems are common to many areas of public policy.

A review of existing literature and analysis of the case studies would seem to indicate that, in less-developed economies like Tanzania where there is gap in term of skills needed in the OG industry, also market opportunities are beyond the capability and reach of local suppliers and contractors, a mix of incentives and mandatory requirements is necessary to support Local Content implementation.

### **CONCEPTUAL FRAMEWORK**

The achievement of Local Content will depend on the extent to which local people or local suppliers are able to capture expenditure by oil and gas companies on labour and on goods and services, for example through the number of locals by head count within a workforce or expenditure with locally based or locally owned suppliers engaged in contract execution. Also the efforts of a company, government, or supplier to grow its share of local content over time by building skills in the local workforce through training and education, or investing in developing the capabilities and competitiveness of domestic supply chains (Tordo *et al.*, 2013) (Fig. 1).

The success of Local content policy largely depends on improvement in the quality of education, changes in labour mobility, improvement in infrastructure, stable macroeconomic policies that provide more leverage in trade agreements and improve the financial market. Human Resources strategies i.e., recruitment, training and succession planning when implemented well in Oil and Gas industry will influence the achievement of local content through job creation of locals, develop the capacity of locals and fostering technology transfers through trainings, procurement of local goods and services and empowerment of local suppliers to meet the needs of the industry in term of quality, quantity and timing. However all of these depend on the size of organization, type of organization whether is in Oil or Gas industry and ownership of the organization in terms of nature of shareholders involved.

Local Content Policy also need to take into consideration size of OG reserves, structure of labour market in terms of skill levels, size and structure of OG sector and the level of regulatory and institutional capacity customized to Tanzanian framework as no 'one size fits all' in terms of local content policy with respect to employment, purchasing strategies, localization and the transfer of knowledge.

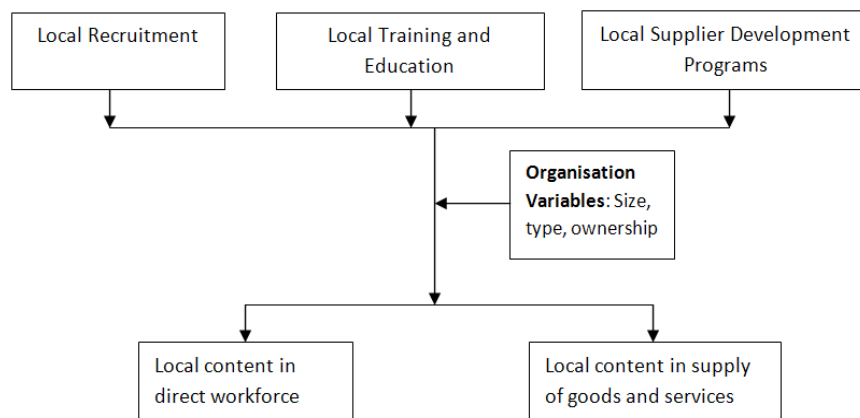


Fig. 1: Modified from Tordo *et al.* (2013)

## RESEARCH METHODOLOGY

The population of study was the Oil and Gas companies in Dar es Salaam region in Tanzania. The region was chosen because it was accessible to the researcher and is the one hosting the main offices in the industry. The case study was used for gathering data. In carrying out the study, a qualitative research method was applied as it produces a detailed data on the phenomenon being investigated as they are derived directly from people involved or stakeholders (Patton, 2002 cited in Briki, 2007). Qualitative research is the best method for examining intangible or non-quantifiable factors which are not easily captured by other methods (Denzin and Lincoln, 2000; Nkwi *et al.*, 2001), also it is due the fact that the sample size was small.

However, because of the nature of Oil and Gas industry in Tanzania, the purposeful sampling technique was used. The in-depth interview was conducted. Four case studies were employed to collect in-depth information; case studies are BG, Statoil, Petrobras and Mauriel et Prom. These cases were selected from the industry information obtained from Tanzania Petroleum Development Corporation (TPDC) which is the Tanzanian Government Corporation through which the Ministry of Energy and Minerals implements its petroleum exploration and development policies.

**Data collection methods:** Various Government policies related to Oil and Gas industry were reviewed in this study and interviews were held with top management and Human Resource personnel of OG organisations. Semi structured questionnaires with questions related to Human Resource strategies audit were used. In this study interviews were found to be relatively useful than questionnaires.

Also secondary data was collected through policies such as National Energy Policy (2003), Model Production Sharing Agreement (2008), Model

Production Sharing Agreement (2013), Marshal Plan and Natural Gas Development Road Map (2013) and Local content policy (2014). Oil and Gas industries' publications like newsletters, fact sheets and plans were also used as other sources of secondary data.

## FINDINGS FROM THE CASES DISCUSSION OF THE FINDINGS

**HR strategies used in implementing the localisation of human resource:** As it is shown in Table 1 above, all of the studied companies seem to be committed to contributing positively to the local communities of Tanzania by employing as many locals as they can possibly can; working with contractors to ensure they prioritize employment, training and development for local people; sourcing locally produced goods for example BG and MP; and conducting their operations to standards and compliance to the Government policies. However it was observed that the practicability of their commitment to local content compliance was facing challenges during the implementation.

Despite the fact that they want and are obliged to recruit the locals, the companies found themselves with no choice rather than employing expatriates especially in technical and operational posts as Tanzania lack of locals with the needed qualifications in the industry. So the recruitment of locals is done in non technical and in most cases semi skilled and temporary posts.

It was observed that, there is some success in trainings of locals in order to build their capacity in the Oil and Gas industry. This has been contributed due the fact that many Tanzanians lack qualifications of the industry, so in order for the companies to comply with the local content policy they have to train the locals. However, the number of locals sent to technical trainings is small as there are no local training institutes specialized in Oil and Gas, so they have to send locals outside the country for such training which is expensive and that limits the number as argued by Petrobras and MP.

Table 1: HR strategies employed and local content compliance

Company	Strategy	Components
<ul style="list-style-type: none"> <li>○ Case 1: BG Group</li> <li>○ BG Group a world leader in natural gas explorations entered Tanzania in 2010 and is the operator of offshore Blocks 1, 3 and 4 covering the Mafia Deep Offshore Basin and the northern part of the Rovuma Basin.</li> <li>○ Discovered around 15 tcf (trillion cubic feet) of total gross resource.</li> <li>○ Work is progressing to develop a joint LNG plant in collaboration with the Block 2 partners.</li> </ul>	<ul style="list-style-type: none"> <li>• Working with contractors to ensure they prioritize employment, training and development for local people</li> <li>• Sourcing locally produced goods</li> <li>• Conducting their operations to international standards of best practice</li> <li>• Building local skills through various educational programmes, including providing scholarships for Tanzanians; working with specialist educational establishments; and developing a programme that empowers youth in the Mtwara and Lindi regions.</li> </ul>	<ul style="list-style-type: none"> <li>- Local Employment</li> <li>- Social investments</li> <li>- Local Training and education</li> <li>- Local Supplier development</li> </ul>
<ul style="list-style-type: none"> <li>○ Case 2: Statoil</li> <li>○ Statoil has been in Tanzania since 2007 when they signed PSA for Block 2 TPDC.</li> <li>○ In 2012 and 2013 Statoil and its partner ExxonMobil made the significant Zafarani, Lavani, Tangawizi and Mronge discoveries in Block 2 which have proved 17-20 Tcf of in-place volumes.</li> <li>○ In May 2013 Statoil acquired a 12 % interest in the Petrobras operated Block 6 in the Mafia basin.</li> </ul>	<ul style="list-style-type: none"> <li>• Statoil has a sustainability policy focuses on:</li> <li>• Hiring, developing people and promote local sourcing.</li> <li>• Exchange of experiences with national partners and, support education and skill building in oil and gas related disciplines to build lasting capacity.</li> <li>• To ensure that the local content requirements are written into big contracts with larger suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>- Local Employment</li> <li>- Local Training</li> <li>- Capacity building of locals</li> </ul>
<ul style="list-style-type: none"> <li>○ Case 3: Petrobras</li> <li>○ In June 2013, Petrobras International Braspetro B.V. ("PIBBV") entered into an agreement to form a joint for oil and gas exploration and production in Tanzania.</li> <li>○ The company has not started operations yet, it is still on the study in Zanzibar after no luck in Mtwara explorations.</li> </ul>	<ul style="list-style-type: none"> <li>• Petrobras reaffirm its operations in full compliance with local laws, social responsibility policy, and with the commitments they have taken on.</li> <li>• From 2011 Petrobras has been sending local engineers for trainings outside the country as an asset once the operations begin.</li> </ul>	<ul style="list-style-type: none"> <li>- Local Employments</li> <li>- Local Trainings</li> <li>- Develop local expertise</li> </ul>
<ul style="list-style-type: none"> <li>○ Case 4: Mauriel et Prom</li> <li>○ The Maurel and Prom Group entered Tanzania in July 2004 with the Bigwa-Rufiji-Mafia permit.</li> <li>○ In 2009 MP acquired the production permit for Mnazi Bay.</li> <li>○ MP has 1 production and 2 exploration licences under PSA terms with local power plant as its customer.</li> </ul>	<ul style="list-style-type: none"> <li>• MP is pushing for local content not only for compliance reason but they see it as beneficial to them.</li> <li>• Amongst their managerial to medium level employees, only 3 are expatriates and 37 are locals.</li> <li>• Conducts internal and sends abroad its operational managers, logistics managers and engineers abroad to gain experience of Oil and Gas Industry.</li> <li>• It uses local contractors for its operations.</li> </ul>	<ul style="list-style-type: none"> <li>- Local Employment</li> <li>- Develop local expertise</li> <li>- Local supplier development</li> <li>- Local Training</li> </ul>

In the case of succession plans, this has not been practiced in the companies although they aim to do so. This is contributed by the fact that many of the companies in the industry in Tanzania are new and some in early stages of their operations, so it seem according to MP it is impractical to replace the expatriates with local before the company is full established. Also depending on the ownership of the company, that is if it has their main shareholders and headquarters outside the country, top management has to be from that country, this can be seen from BG Group (Britain), MP Group (France) and Petrobras (Brazil).

Desire to develop local businesses in Tanzania was expressed from the companies studied for example from Table 1 BG and MP. However its implementation is facing the same challenges of qualifications of locals and their business in rendering the services as per international or desired standards. It was observed that

the lack of qualification is due to lack of exposure and experience in the Oil and Gas industry as it is new in Tanzania, which makes even the logistical arrangements to foster the standard of the businesses like tax policies, registrations, licenses and other systemic regulations specifically for the industry are not yet in place.

**Factors affecting localisation of human resource:** According to the respondents from this study, the following are the factors affecting localisation of Human Resource in the Oil and Gas industry in Tanzania:

**Local effort and resources:** Even when the Oil and Gas Company is supporting and committed, real success in localization cannot occur without actual localization-related HRM practices indicating internal resources and effort actually allocated to implement

LC. Appropriate localization HRM practices include selecting expatriates who are willing to help develop the careers of local managers, providing them with appropriate incentives to encourage localization, setting up a localization-result-oriented appraisal system, training local managers for localization, retaining the developed local managers and repatriating the expatriates appropriately.

#### **Government of Tanzania commitment and support:**

The local Government needs to set its systems in a way of fostering industry localization in Tanzania, policies alone without appropriate regulations and guidelines to support policies implementation, localization will be history. Institutes and/or curriculums should be established to train locals in Oil and Gas industry to create a pool of candidates for employment and even to make it easier for companies to train many locals. Rules and regulations should be strict so as to ensure companies' adherence to localization. Licensing and registration of local businesses subcontracted and rendering services to Oil and Gas companies should foster quality and operation standards to the industry.

#### **CONCLUSION**

Localisation of Human Resource is very important in order to ensure that locals are benefiting from the Oil and Gas discoveries in Tanzania, either through employment, capacity building and local businesses. This study was assessing the relationship between Human Resource strategies and Local Content in Oil and Gas industry in Tanzania. Findings shows that in order for the Local content to be achieved, Human Resource strategies has to be localisation related and the Government has to be fully committed and support the localisation in the industry. Therefore through assessing Human Resource strategies used in implementing the localisation of Human Resource and factors affecting its success, we can say that there is a relationship between Human Resource strategies and Local content in the Oil and Gas Industry in Tanzania.

Due to the fact that the study was done in main companies situated in Dar es Salaam region using qualitative method, it is suggested that further study can be done extending to contractors recruited by the companies and the field offices situated in Mtwara and Lindi also by using different methods so as to contribute more to this new and very important phenomenon of localization in the Oil and Gas Industry.

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