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Evaluating the Experiments of Procurement Outsourcing in Ghana.

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Abstract
The research style employed for this study was a single case study on Owere Gold Mines Limited to access the challenges of procurement outsourcing in Ghana. Fifty (50) participants (senior members, unit heads and key staff including procurement officers and finance officers) who are engaged in procurement process and or activity at Owere Mines Limited were purposively selected for this study. The research also used descriptive statistics in the data analysis. The research findings point to three main conclusions: (1) that the main purpose or rationale for procurement outsourcing at Owere Gold Mines Limited is no other reason than to improve the focus of the company, (2) there are indeed challenges associated with procurement outsourcing. From the case company's perspective, hidden cost is the most common challenge they encounter so far as procurement outsourcing is concern, and (3) the study concluded that these challenges identified could be managed when outsourcing organizations do exercise tactfulness in the selection of outsourcing service providers with a wide skill-set and operational coverage. The researcher again recommended that future research should try and include other stakeholders of procurement as far as the company is concerned. This is because other stakeholders such as contractor/suppliers, transporters etc. could volunteer vital information that could enrich the findings of the study.

I. INTRODUCTION

The impact of procurement is growing lately at a faster rate in terms of both decision-making and strategic prominence. The management of procurement in particular and the entire Supply Chain in general has emerged from being sets of functional skills to being recognized as a driving corporate business philosophy – a profit creation centre, rather than simply a cost saving function(http:www.strath.ac.uk/business/). In procurement, it is critical that goods, works or services are appropriate and acquired at the best competitive price. In the light of this, strategies are often designed by management to maximize operations of the company whilst having cost reduction at the other side of it. Outsourcing is notably adopted by business organizations to help realize this idea. Outsourcing is a tactical sourcing option that is progressively being adopted by organizations across a wide and complex range of business functions (Hanson & Olson, 2005). Whilst outsourcing can offer organizations the potential to save money and improve business effectiveness (Domberger, 1998; Greaver, 1999), there are many lessons to be learned from those with outsourcing experience, with as many negative outsourcing stories as positive ones. Organisations typically spend twice as much with their suppliers as they do on staff costs. As a result, reducing supplier spend can have a proportionally bigger effect on earnings than the same percentage reduction in staff or staff costs. This effect is often further amplified as supplier savings have a direct earnings benefits whereas staff costs carry other overheads and so do not have a direct one-to-one effect (www.alsbridge.eu, 2013) Outsourcing has increasingly become an important strategy that can significantly assist organizations to leverage their skills and resources to achieve greater competiveness. It is therefore, a fast growing aspect of the world economy (Quinn et al., 1994). Procurement outsourcing is the action of a company outsourcing their procurement functions, with the acquisition of goods and services, through a third party. This does not mean that the company loses control, but it utilizes third party services. The outsourced procurement can mean cost reduction, improved efficiency, improved compliance, and enhanced performance. Procurement outsourcing can involve some or all of the company's staff, technology, systems, and vendor management or everything can be directed by the procurement outsourcing firm for the company (Sigaria, Ltd., Procurement Leaders).

Many companies do not know what procurement outsourcing is and why it is becoming a vital part of their operations. It was only in the 1990's *AT Kearney* started procurement outsourcing and began selling procurement outsourcing consulting services. Since then, procurement outsourcing is gained momentum (Ahn et al., 1990). There are several reasons for the emergence and grow of procurement outsourcing world wild perhaps, the most predominant motive from literature could be attributed to cost reduction that organizations reap as a result of this strategy. As procurement outsourcing continues to gain momentum, cost reduction has been the major pivot for which companies outsource their procurement activities. Before an organisation can fully reap the benefits of procurement outsourcing, a comprehensive analysis of the subject matter must be sought. The challenges, risk, impact and why it should become a part of a company's regular operating procedure needs to be explained. More and more companies view procurement functions as a key component of their core business strategy. In Ghana, most mining industries are beginning to see procurement outsourcing (PO) as a viable option. Institutions in both public and private sectors of the Ghanaian economy are outsourcing one or more procurement functions. Despite many promising features and factors provided by a number of procurement service providers, a question still remains as to why procurement functions should be outsourced. The study tries to bring a holistic view on procurement outsourcing activities and build models for companies to select optimal procurement outsourcing option. The case study company, Owere Gold Mines Limited is ideal for this study because it has embraced the strategy of outsourcing its procurement activities since the commencement of mining activities in 2009. Owere is a gold mining company situated at Konongo in the Asante Akyem Central Municipality of Ashanti region.

A. Problem statement

Organisations looking for improvement of corporate performance often look to Business Process Outsourcing (BPO) services to streamline business processes and improve operational performance (Browning, 2007). In the quest for greater business value, cost savings and high performance through business process outsourcing, senior executives from nearly every industry are turning their attention to their procurement function (Accenture, 2010). Outsourcing of business processes globally has been predicted by various pundits to increase significantly over the next few years. Even though most business executives know the significant benefits that can be reaped from effectively implementing procurement outsourcing, the subject has received very little attention and publication in Africa particularly Ghana.

A recent investigation of procurement directors conducted in major industrial countries found that most intend to substantively increase outsourcing activity (Heffes & Marshall, 2004). In February 2005 the Harvard Business Review commented on a Bain survey of large organisations in Europe, Asia Pacific and North America, which identified that 82% have outsourcing arrangements of some kind (Gottfredson et al., 2005).The overall values associated with outsourcing are startling. Reporting on global outsourcing, the United States Employment Policy Foundation identified an increase in outsourcing value from US$364 billion in 1980 to US$1.6 trillion in 2002. Industry analysts estimate this figure will be close to US$6 trillion by end 2007 (Kelly-Services, 2005). Global spending on procurement outsourcing has not been well reported. The Gartner group (Pring, 2006) estimated the global worth to be US$2.9 billion with growth expected of 17% annually to US$10 billion by 2010. In contrast Wilmott (2004) estimates the overall outsourcing procurement market at US$200 million and expected growth to $640 million by 2008. The huge difference in estimates and difficulty in finding additional sources suggest that this business area is not yet well understood (Beaumont & Sohal, 2004) and reflect inconsistencies in the business activities which make up procurement. However, contrary to the optimistic portrayal of outsourcing by vendors and the marketplace, outsourcing is an extraordinarily complex process and the anticipated benefits often fail to materialize (Deloitte, 2005).

Despite a substantial growth in outsourcing in the past several years, procurement outsourcing is less 2% of all outsourcing activities (A.T. Kearney, 2007). Procurement is not as easily outsourced as other functions. The reason is that procurement results tie directly into the cost of goods sold and organisation's profit-and-loss statements. As far as 1999, an assessment of excellence in procurement study, executives said they expected to increase their outsourcing of day-to-day procurement activities significantly, and deploy more strategically consortia. Yet more than a decade later, procurement outsourcing continues to trail outsourcing in other functions (A.T. Kearney, 2007). More so, in spite of the dramatic rise in procurement outsourcing practices, few empirical investigations have been conducted in this area and not so many people really understand the meaning of procurement outsourcing, including those who are currently working in this field or related field. As a result, this study attempts to close the gap in this area by explicitly studying procurement outsourcing in the mining sector of Ghana using Owere Gold Mines Limited as a case study.

The study hereby aims to investigate the challenges/pitfalls of procurement outsourcing and their effects on Owere Mines Limited. It also discusses the rational/reasons for outsourcing as procurement strategy at Owere Gold Mines Limited.

II. LITERATURE REVIEW

The study described here was designed to assess the challenges of procurement outsourcing in Ghana, a single case study of Owere Gold Mines Limited. This chapter presents a review on available literature and examines major themes associated with procurement outsourcing internationally and within Ghana. In order to convincingly define procurement outsourcing, it is important to explain and analyze each term separately.

A. Procurement

One of the worries in defining the term 'procurement' is that it does not deal with a single action or process. Procurement encompasses the complete range of events from the identification of a need for a good or service through to its disposal or cessation. Procurement involves activities and events before and after the signing of a contract as well as the general management activities associated with a range of contracts (CIPSA, 2005):

- *Pre-contract activities such as planning, needs identification and analysis, and sourcing,*
- *Post-contract activities such as contract management, supply chain management and disposal, and*
- *General undertakings such as corporate governance, supplier relationship management, risk management and regulatory compliance.*

The term Procurement can then be defined as the business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfill its strategic objectives (CIPSA, 2005). There is very little variation in procurement descriptions in Ghana or internationally; e.g

- *The process necessary to acquire goods and services, (Project Management Institute, 2004).*
- *The provision of goods, supplies and services to keep the company in operation (Farney, Pooler & Pooler, 2004).*
- *Acquiring goods and services (Handfield, Monczka & Trent, 2005).*
- *The process of deciding how to provide needed goods or services (Office of the Controller and Auditor-General, 2001).*
- *The Aqua Group (1999) defines procurement as the process of obtaining or acquiring goods and services from another for some consideration.*
- *The International Bank for Reconstruction and Development Guidelines for Procurement also define procurement as the acquisition of goods, buying or purchase of works, hiring contractors and consultants services (IBRDGP, 2004).*
- *Procurement, according to the Public Procurement Act, 2003 (Act 663), is 'the acquisition of goods, works and services at the best possible total cost of ownership, in the right quantity and quality, at the right time, in the right place for the direct benefit or use of governments, corporations, or individuals, generally via a contract' (PPA Module, 2007). In other words, Public Procurement is the process by which organizations acquire goods, works and services using public funds. It is a comprehensive process that runs from proper procurement planning, budget allocation, bids invitation, bids evaluation, award of contract, contract management, performance measurement, monitoring, auditing and reporting.*

From the various definitions above, procurement can then be deduced as the process by which an entity obtains materials, services and equipment needed to carry out its activities in order to achieve its objectives or goals. It is also the process, which creates, manages and terminates contract. Procurement is therefore concerned with activities that both precede and follow the signing of a contract within a legal framework. Procurement exists to explore supply market opportunities and to implement resourcing strategies that deliver the best possible supply outcome to the organisation, its stakeholders and customers. Procurement applies the science and art of external resource and supply management through a body of knowledge interpreted by competent practitioners and professionals. Procurement delivers a range of benefits. It does not only seek to reduce costs and to ensure supply, it also supports strategic organisational objectives such as market expansion and product innovation.

B. Outsourcing

Outsourcing embroils dependence on outside skills and capabilities. However, there are various definitions of outsourcing in the literature. Somewhat traditional definition of outsourcing was provided by Lei & Hitt (1995) who defined outsourcing as "the dependence on external sources for manufacturing components and other value-adding activities". In very general level, outsourcing exists when a business function or process is farm out to an external supplier, who is then responsible for the delivery of goods and services that would have been produced internally in other case (Kakabadse and Kakabadse 2000). Ellram and Billington (2001), define outsourcing as the transfer of the production of goods or services that had been performed internally to an external party. Heywood (2001) defines it as transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offer a service for a specified period of time, at an agreed but probably qualified price. Along similar lines, Wasner (1999) defines outsourcing as to turn over to an external vendor, the control of an in-house activity, or an activity for which an immediate ability exists to performing it internally. Wasner (1999) further states that outsourcing is composed of a make-or-buy decision together with transfer. Outsourcing is akin to subcontracting, joint venturing, and strategic partnering concepts. For example, Greaver (1999: 10) claims that the process of contracting external service provider is referred to as outsourcing. By his definition, outsourcing is: "the act of transferring some of a company's repeated internal activities and decision rights to outside providers, as set forth in a contract". However, some scholars argue that outsourcing cannot be used as a synonym for contracting-out because, outsourcing entails a long-term relationships with a high degree of risk sharing, whereas contracting out refers more to work conducted by an outside supplier on job-by-job basis, cost being the practically the only decision making criteria (Hätönen & Erikkson 2009: 145). Some argue that what separate outsourcing from these similar concepts is the fact that originally "internal" activities are being transferred out (Lei & Hitt 1995). Hätönen & Erikkson (2009) found out in their research review that in the "early-days" of outsourcing, the outsourcing strategy included cost based contracting out as well. As the practices have developed and increasingly strategic operations are being outsourced, the relationships have evolved beyond the arms-length, purely transactional arrangements. Nonetheless, they state out that "it is not that the theory has become obsolete; it is perhaps the evolution of the practice that has complicated the theory". Gilley and Rasheed (2000) made a distinction between substitution-based and abstention-based outsourcing and with that leverage the definition of outsourcing to cover both, existing functions and future ones. With substitution, firms discontinue its production of goods and services and replace it with capabilities provided from outside markets. The firm's scope is then determined by comparison of the performance differential between existing internal capabilities and those available in external markets (Holcomb & Hitt, 2007). On the contrary, abstention-based outsourcing occurs when firms acquire capabilities from intermediate markets, rather than be involved in the necessary investments to internalize production. Thus, the firm's scope is also determined by evaluating the difference of costs between internal and external developing of needed capabilities (Gottfredson, Puryear & Phillips 2005). Based on that, Gilley and Rasheed (2000) defines outsourcing as procuring something that was either originally sourced internally (i.e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e. make or buy). With that, Gilley and Rasheed provide clarification for the definitional confusion of the difference between the internal and external outsourcing (Harland et al. 2005: 2). Among the definitions of these different authors, it is clearly found that they come to a common background in which they agree that outsourcing could be summarized in the functions to make or to buy decisions and transfer the job to a third party. This helps the organization to focus on its core business activities while handling non-business activities to others who are specialist in order to reduce cost and to increase job efficiency. This leads to definition of outsourcing which is not very far from what has been discussed above. Outsourcing is viewed as the decision to make or buy process held by a third party firm that will manage clients' non-core activities in order to achieve competitive advantage. In a commercial manner, outsourcing helps to reduce the firm's costs and increase its efficiency in new business and other activities.

C. Procurement Outsourcing

Procurement outsourcing is a combination of both components i.e. procurement and outsourcing. Poisson (2003) describes this as, "reassigning the operation of sourcing and spend management to a third party service provider". Hanson and Olson (2005), have a related but more comprehensive definition, "the transfer to a third party of all or part of a range of sourcing-to-settlement processes including sourcing, tactical buying, requisitioning, accounts payable and supplier management". While it be crucial to consider definitions from literature, in the researcher's view, the following summary of features are more useful when considering what is meant by procurement outsourcing;

- *Depending on an external party to provide tailored procurement services*
- *Exploiting expertise of a third party to deliver targeted and complimentary procurement services to an organisation.*

Likewise, Procurement leaders (2011 defined Procurement outsourcing as ''the action of a company outsourcing their procurement functions, i.e. the acquisition of goods and services, through a third party''. This does not mean that the company loses control, but it utilizes third party services. The outsourced procurement can mean cost reduction, improved efficiency, improved compliance, and enhanced performance. Procurement outsourcing can involve some or all of the company's staff, technology, systems, and vendor management or everything can be directed by the procurement outsourcing firm for the company (Procurement Leaders 2011). According to Aberdeen, procurement outsourcing is either full or incremental. Full procurement entails leveraging an outsourcing provider to manage all aspects (all processes and categories) of the source-to-settle cycle. Incremental outsourcing involves utilizing an outsourcing provider to manage either distinct source-to settle processes across specific categories of spend, or a combination of these approaches (Aberdeen, 2007). In a white paper report by Wibro Technologies in 2003, procurement outsourcing was defined on the other hand as a process wherein organizations take a calculated approach of moving some of their processes around source to pay to a specialist. This involves organizations identifying the core and non-core activities with source to pay and start outsourcing non-core activities to a specialist. This process involves different approaches:

- *Full outsourcing – Survey shows only 17% take this approach - Only leaders adopt this route*
- *Incremental outsourcing – Survey shoes 83% take this approach*
- *Hybrid approach towards strategic and transactional activities*

Today leading organizations are adopting PO as a key approach to improve corporate performance, standardize processes, and consolidate operations. Procurement outsourcing unlike other areas has an added advantage of achieving strategic value over and above cost cutting. The potential of procurement outsourcing is that it can deliver five times potential savings compared to others (Wipro Technologies, 2003).

D. Theoretical Bases of Outsourcing

There are several research streams supporting the definitions of the concept of outsourcing. The phenomenon of outsourcing as a practice originated in the 1950s, but it was widely adopted as a strategy in the 1980s. After that, the strategy has evolved from a cost focused approach towards more cooperative nature. Today, cost is not regarded as a biggest decision-making criterion, instead more critical and knowledge-intensive business components are outsourced and often developed in close cooperation with the vendor (Hätönen & Eriksson 2009). Lately, outsourcing is pursued locally and internationally. International outsourcing can also be termed as offshore outsourcing, and it include the transfer of both the ownership and the location of the operations. Offshoring is mostly used synonymously with offshore outsourcing which actually means the strategy of transferring activities across national borders (Harland et al. 2005). Apparently, outsourcing has three obvious types since it first generation: Manufacturing outsourcing, Information technology outsourcing and Business process outsourcing (Mahmoodzadeh, Jalalinia & Yazdi, 2009). Manufacturing outsourcing is the production of a part, component part or service and IT outsourcing includes the outsourcing of IT resources. Business process outsourcing represents the outsourcing of a whole business process, to which the service provider takes full responsibility. Business process outsourcing varies from traditional outsourcing procedure in that it influences higher level of expertise than knowledge, which recently has been ignored by the threats of outsourcing (Duan et al. 2009). In literature, the most used theoretical viewpoints of outsourcing are transaction cost theory, resource-based view, and core-competences. The transaction cost theory has led companies on what to outsource and focused more especially confine outsourcing to more specialized and repetitive activities, such as manufacturing, logistics and maintenance. Whereas, the theory of resource-based view as well as its' descendant, core competencies, have directed companies to focus on core competencies and have provided a context to explain outsourcing of more visible and potentially sensitive functions as a strategic arrangements (Holcomb & Hitt 2007).

E. Transaction Cost Theory

Traditional but very popular theoretical approach for firms' borderline decision is transaction cost theory. Transaction cost theory advocates that the decision of whether the products and services are bought or provided in-house is determined by the most lucrative choice (Holcomb & Hitt 2007). Simply, if using the markets results in lower transaction costs than doing that activity within, then it should be bought from the market (Hätönen & Eriksson 2009: 145). Transaction can be categorized with the degree of asset specificity, the complexity of the transactional relationship and the frequency of the transaction (Greenberg, Greenberg & Antonucci 2008). Therefore, transaction costs evolve from three elements: the transaction itself, business environment and the transaction parties. Transaction costs involve the costs of selecting suppliers, negotiating prices, writing contracts, monitoring the performance, as well as the potential for opportunism from suppliers (Grover & Malhotra 2003). The potential for opportunism increases if investments have to be done which are specific to a particular relationship. However, according to Holcomb and Hitt (2007) transaction cost theory suggests that all firms facing a similar transactional features and a set of exchange conditions will end up with the same internalization decisions. In reality buyers are looking for a wider range of strategic contributions from their suppliers. Beyond short-term cost savings, there are several other motivations for outsourcing, for example acquiring greater resources and knowledge and competences from external providers.

F. Resource-Based View

The resource-based view sees the firm as a bundled of assets and resources that if employed in unique ways can form competitive advantage. Resource-based viewpoint is based on the theory that companies use outsourcing to get resources not available internally. The theory was coined after transaction cost theory lost some importance in that the cost being literately only decision-making criteria (Holcomb & Hitt 2007). Resource-based view of the firm buttresses the importance of resources in guiding firm activity. According to the theory, the management of a firm's collection of capabilities is in central to company's competitive advantage (Lonsdale 1999; Harland et al. 2005; Handley & Benton 2012). More precisely, the theory opposes the reasons for outsourcing is linked to the conditions that enable firms to begin, maintain, and use capabilities more efficiently than markets can do (Holcomb & Hitt 2007). In that, the operational efficiency is determined by how effectively companies employ their resources: the ones which are internal and the ones which can be procured from outside providers (Logan 2000; Hätönen & Erikkson 2009). Nonetheless, as the transaction cost theory, the resource-based view have been remarked for being too simple approach to explain more intricate reality (Dyer & Singh 1998) and also that strategic capabilities and resources are often hard to identify in practice. Despite all of that, the resource-based view subscribed a competitive strategy model rather than a decision model of outsourcing (Dekkers, 2011). Possibly that explains why in recent years, some transaction cost scholars have acknowledged that transaction-based and resource-based perspectives "deal with partly overlapping phenomena, often in complementary ways" (Holcomb and Hitt, 2007). When resource based view has directed companies to focus core competencies, the transaction cost theory helps the organization to decide which of their non-core functions they should buy and what to make in-house (Logan 2000).

G. Core Competencies

Somewhat consistent with opinions of resource-based view, theory of core competencies focuses on strategic decision making itself (Dekkers 2011). According to this theory, focusing on core-competencies (Prahalad and Hamel, 1990) nurtures the key issue on which areas a company should focus more in order to balance their make-or-buy decisions (Gilley & Rasheed, 2000). For example, Dekkers (2011) found out that the core competencies approach has mostly motivated the outsourcing decisions made by the companies. His study of manufacturing firms and their outsourcing decisions also reveals that the operational issues had been barely accounted for during the decision making. In literature, there is still many ambiguities' defining what is meant by company's core competencies. For example, some scholars favour core activities to be core competencies, which are the ones firm is unceasingly engaged in, whereas peripheral activities are more intermitted and can rather be outsourced (Quinn & Hilmer 1994). On the other hand, some scholars state that core competencies are those activities which provide long-term competitive advantage, and must be kept in-house to secure that (Prahalad & Hamel 1990). Some scholars find core to be more related to the productive capabilities than governance of capabilities. Jacobides and Hitt (2005, p.1222) examined how capability differences shape the make-versus-buy decision concluding that, "productive capabilities can and do play a major role in the purpose of vertical scope". The focus of their study was stated more to the comparative advantage than competitive advantage of the firm.

H. Strategic Outsourcing

Outsourcing initiative becomes strategic when it goes along with the organization's long-term strategies Greaver (1999). When strategic or tactical outsourcing is more featured with a problem-solving approach, takes strategic outsourcing to a higher level. Strategic outsourcing ought to take account of the whole performance and arrangement of the organization by asking questions about outsourcing's relevance to the organization and its vision of its future, present and future core competencies, present and future costs and present and future competitive advantages. (Greaver, 1999). One of the ancestors of outsourcing literature, Ansoff (1965) debated that the most significant questions to the firm's organizational strategy are what to produce internal (vertical integration) and what to buy from external providers (outsource). Early scholars adopting the strategic perspective argue that core activities should stay in-house, whilst non-core activities can be outsourced, in order to sustain core competencies (Prahalad and Hamel, 1990; Quinn and Hilmer, 1994; Lonsdale 1999). Therefore, a definition of firm's limits and organizational strategy culminates in the make-or-buy-decision. Similar to Quinn and Hilmer (1994), who claim that outsourcing processes have faced an evolution from traditional to strategic outsourcing. Outsourcing is considered traditional when firm is outsourcing processes that are not considered critical for the organization. For instance activities that do not need specific capabilities by the supplier like cleaning or canteen services. Simply put, strategic outsourcing happens when companies outsource everything except those special processes and activities which could provide a unique competitive advantage to the company (Quinn & Hilmer, 1994). However, by then Quinn and Hilmer (1994) used the term "strategic outsourcing" in order to identify what is the strategic core of the firm and what are those activities which are crucial to attain the strategic goal of the firm (Quinn 1999; Kakabadse & Kakabadse 2000). Mahmoodzadeh et al. (2009) takes the same direction and divides the outsourcing decision to be either tactical or strategic. Strategic outsourcing looks for overall business improvement rather than simple cutting costs. Therefore, a company could achieve its strategic goals by focusing on fundamental activities to organizational realization. Tactical outsourcing has a short-term focus on reducing operational costs or optimizing cost-savings. But according to Gilley and Rasheed (2000) outsourcing is certainly not simply a purchasing decision. The outsourcing decision itself contains a fundamental choice to reject the internalization of an activity. Because of that, outsourcing is a highly strategic decision.

Holcomb and Hitt (2007) draw a gap between strategic outsourcing and strategic purchasing. Strategic purchasing refers to the on-going process of soliciting, negotiating, and contracting for the delivery of goods and services from suppliers that involve arms-length transactions with suppliers (Chen & Paulraj, 2004). Organizations generally purchase products and services from suppliers on a frequent or repetitive basis for example to the procurement of production inputs or to the purchase of commodities for administrative use. These decisions tend to base more to the routine and rarely involve the transfer of resources. According to Holcomb and Hitt (2007), strategic outsourcing involves linkages with exchange partners that provide access to desired specialized capabilities which cannot be realized through internalization. Because of that, the strategic outsourcing reflects a primary relational view and cannot, therefor, equate with the purchase of goods and services.

I. *Purpose/Rationale for Outsourcing*

The purpose or motive why organisations select outsourcing is connected to business performance and improvement. Initial decisions to outsource were based almost entirely on expected financial benefits (Greaver, 1999), with any other business improvement benefits seen as secondary (Halvey & Melby, 2000). Belcourt (2006) also pinpointed cost reduction as the primary purpose why most organisations adopt outsourcing as a business strategy. However, outsourcing has become more tempting and popular amongst companies for a large number of reasons. These are mostly from the viewpoint of organisations and experts with in-depth knowledge about the subject: Moreover, an internet survey by the Outsourcing Institute of global business executives identified the following reasons for procurement outsourcing:

- *Reduction and Control of Operating Cost:* Traditionally a predominant intention for outsourcing has been a short-term cost reduction (Jennings, 2002; Kakabadse & Kakabadse, 2000; Quelin & Duhamel, 2003; Zhu et al, 2001). According to Lonsdale & Cox (1998) outsourcing can be an effective way to reduce costs in the short term, and there is nothing inherently wrong with having that objective. One of the key areas where savings are expected is labor (Lonsdale & Cox, 1998). Intensifying global competition has created pressures of cost reduction typically by moving low-skilled, labor-intensive activities to Asia and other low cost locations (Leavy, 2004; Kumar & Eickhoff, 2005). Labor cost reductions in other markets can be significant (Kumar & Eickhoff, 2005). The second area of potential cost reduction is through the third party offering greater responsiveness through new technologies which have undermined the need for the vertical integration and have also helped achieve economies of scale (Kakabadse & Kakabadse, 2000; Lonsdale & Cox, 1998). Cost reductions can be gained, when suppliers´ costs are low enough and even with added overhead, profit and transaction costs supplier can deliver a service or product for lower price (Kremic et al, 2006). Because of mass production efficiencies and labor specialization, specialized suppliers´ unit costs are less expensive (Lacity et al, 1994). According to Belcourt (2006) specialized suppliers are more efficient because they divide the costs of training personnel and undertaking research and development across more user. Another financial motive for outsourcing is cost control (Lacity et al, 1994). When an activity or service is outsourced, supplier charges for each use of the service. For this reason use of the service may be more cautious compared to in-house service (Belcourt, 2006). Belcourt again mentions training as a good example. Moreover, outsourcing enables more direct and precise cost allocation (Lacity et al, 1994).

- *Improve Company Focus:* Many organisations make a decision to outsource some organisational activities. This is because they want to focus on their core competencies, and put less emphasis on developing in-house activities outside of this core (Cooper, 2007; Potkány, 2008). The decision to focus on a company's core business processes while delegating non-core business functions to experts outside the company puts the organizatione in pole position to realize its visions and mission.

- *Gain Access to World-Class Capabilities:* More so, many companies do not have the expertise to embark on effective procurement processes and activities internally. Therefore, choosing outsourcing as a business strategy is seen as a crucial component of such companies. Outsourcing in a whole enables companies to tap in to and leverage a global knowledge base, having access to world class capabilities.

- *Free Internal Resources for Other Purpose:* Outsourcing helps companies to free up internal resources that could be put in to effective use for other purposes. Sometimes, other professionals who do not possess the required know how and skills are tasked to double as procurement professionals. This could be attributed to the fact that there is lack of expertise readily available to perform such functions.

- *Resources Are Not Available Internally:* Factors of production such as skilled labour, raw materials, plant and machinery are not easy to come by. To help curtail this challenge, many world class enterprises outsource to gain access to resources not available internally.

- *Function Difficult To Manage/Out of Control:* Business process of any form requires some level of knowledge and expertise. Companies employ outsourcing and delegate responsibilities to external service providers that possess the needed expertise to handle functions that are difficult to manage and control while realizing their benefits.

- *Share Risk:* In addition, outsourcing helps companies mitigate risk. This is because companies transfer part or all process to a third party provider with the associate risk.

- *Capital Infusion:* Some companies also outsource to help them expand and gain access to new market areas, by taking the point of production or service delivery closer to their end users.

- *Make Capital Funds Available:* Many a time, outsourcing is undertaken to provide a buffer capital fund to companies that could be leveraged in a manner that best profits the company. (The Outsourcing Institute, 2005b)

Whilst most authors agree with these reasons for outsourcing, Hanson and Olson (2005) prefer to focus on just three key benefits, "lower costs, increased focus on core competencies and improved operating performance" (p.18). Halvey and Melby (2000) go further and include the following additional reasons;

- *Enhancing and improving methodologies and processes*
- *Benefiting from industry knowledge or experience*
- *Streamlining and standardising processes across an organization*
- *Sharing resources or technologies*
- *Committing less upfront investment to new methodologies*

Driving lower operating costs and better business performance as benefits of procurement outsourcing are implied by Halvey and Melby (2000) without being explicit in their listing. A survey of real estate management practices of over 457 New Zealand organisations (Hayward & McDonagh, 2000) identified outsourcing of business processes as a growing trend but highlighted that 65% of respondents did not have a written outsourcing strategy. Whilst consistent with the themes identified by other authors, Greaver (1999) suggests consideration of a balanced range of business drivers when evaluating a potential outsourcing opportunity and the subsequent monitoring and measurement of the success of each outsourcing project.

J. Benefits of Outsourcing

Similar to other strategies available to the business, due diligence should be exercised before outsourcing decision is taken by any business entity. The result of an outsourcing exercise can greatly benefit the entity depending on how well it is planned and executed.

- *Access to Experts and Advanced Technology:* Some organisations need expertise and advanced technology for the success of their business operations. As such, they source special knowledge, skills, experiences, improved technology and automation capabilities from the vendors (Kakabadse, 2002).

- *Time Pressure:* Organisations which are unable to cope with time-sensitive issues and competing demand, especially during peak periods, may outsource in order to cope with their time pressure (Greer et al., 1999; Laabs, 1993).

- *Reduce Costs:* Organisations gain cost advantage by using external vendors to perform administrative and routine activities. Since external vendors have the economies of scale and the capital investments, they perform the business activities more efficiently and effectively (Gupta and Gupta, 1992; Laabs, 1993; Elmuti, 2003)

- *Strategic Focus:* Outsourcing permits the organisations to move away from administrative functions and concentrate on strategic business activities (Gupta and Gupta, 1992; Greer et al., 1999).

- *Flexibility:* Outsourcing provides organisations with greater capacity for flexibility in responding to changing market conditions rather than trying to cope by investing in rapidly changing machines and technologies as well as other complex systems (Quinn, 1999; Kliem, 1999).

- *Improve Quality:* Outsourcing permits organisations to get better quality services especially from the experts. The assumption is that once quality economic inputs are employed to the production process, it ensures quality end product and subsequently high profit. (Elmuti, 2003; Laabs, 1993)

- *Shift the Burden of Risk and Uncertainty:* Outsourcing helps the organisation to transfer the risks and uncertainties associated with performing the functions to outside providers (Cooke et al., 2005).

K. Challenges of Outsourcing

Like any restructuring exercise and management decision making in business, there are risks associated with outsourcing that procurement managers or top management need to consider carefully and these may include the following:

- *Loss of Management Control:* Organisations that become too dependent on external vendors for the performance of their business activities may find themselves business activities may find themselves locked into specific arrangements that erode their internal abilities to execute activities critical to competitiveness (Bettis, et-al, 1992; Quinn and Hilmer, 1994).

- *Loss of Internal Expertise and Skills:* An organisation that is overly dependent on external vendors may not emphasize enough on internal skills. This leads to loss of critical and functional skills within the organisation and the development of wrong skill sets (Laabs, 1998; Adler, 2003; Quinn and Hilmer, 1994; Domberger, 1998).

- *Costs Consideration:* The cost savings expected from an outsourcing exercise may be negated by other costs that are under-scoped at the outset, such as, search cost (cost to gather information on suitable vendors) and contracting cost (Gilley and Rasheed, 2000; Tukel, and Rom, 2006; Elmuti, 2003).

- *Declining Innovation:* Outsourcing lead to a loss of long run Research and Development competitiveness since it is often used as a substitute for innovation. Organisations also stay behind new technology breakthroughs that offer opportunities for product and process innovation (Kotabe, 1992; Teece, et-al, 1997).

- *Effect on Employees' Morale:* Outsourcing may have a profound effect on the relationship between employer and organisation. This condition may lead to deteriorating impact on the employees' morale in which they may feel insecure or unappreciated by their management (Gupta and Gupta, 1992; Stroh and Treehuboff, 2003; Elmuti, 2003)

- *Potential Lower Service Quality:* Some organisations which outsource their business activities may suffer from low quality output by vendors who have shallow knowledge of the activities and the objectives of the organisations concerned (Barthelemy, 2003; Elmuti, 2003)

- *Disruptions and Clashes of Opinions:* External vendors' inadequate knowledge of the organisations' culture and values often leads to clashes of opinions between the vendors and the organisations (Stroh and Treehuboff, 2003; Elmuti, 2003)

L. Measures to Manage Outsourcing Challenges and Risks.

As the trend towards outsourcing continues, experience enables organisations to better understand the critical considerations required to increase the likelihood of success. The Accenture outsourcing survey found the more experience organisations have at outsourcing the better they are at doing it (Chong, 2004; Gay & Essinger, 2000), and that experienced outsourcers, (defined as organisations with two or more years of outsourcing experience), followed some unofficial but consistent guidelines, these included;

- *Clarifying objectives*
- *Paying close attention to performance management*
- *Incorporating business outcomes as performance measures from the arrangement's outset*
- *Selecting outsourcing providers with a wide skill-set*
- *Using risk/reward provisions as incentives for higher performance outsourcing*
- *Actively managing the outsourcing arrangement for maximum performance*
- *Tasking executives talented with exceptional relationship management skills with optimising outsourcing arrangements*

Accenture maintains that these guidelines are critical for successful outsourcing. They also concluded that high performing procurement outsourcing can be directly aligned to high performing businesses. This view is supported by business improvement authors not focused specifically on procurement outsourcing; Kleiner et al. (1999) point out that organisations that perform exceptionally well require specialisation, innovation and continuous learning involving all business stakeholders. The CEO of the Semco group of companies, passionately advocates that any business activity that can be done better by someone else, should almost certainly be outsourced (Semler, 2003).

M. Background of the Case Study Company

Owere Gold Mines Limited is a Ghanaian/Australian-owned mining company that started its full operations in 2009 at the Asante Akyem North Municipality of the Ashanti Region. Signature Metals Limited is an Australian-listed gold mining company. Its flagship operation is 70%-owned Owere Mines, which holds 100% of the Konongo Project. Its concessions cover 192 square kilometres within Ghana's renowned Ashanti Gold Belt, with a gold resource of nearly 1.5 million ounces. The area has a rich gold mining history. Since the early 1900s, Konongo has produced over 1.6 million ounces of gold from high-grade ore at 11.8 grams per tonne, mostly mined from underground. LionGold acquired a 76% interest in ASX-listed Signature Metals in April 2012 following a successful off-market scrip takeover bid for the company. The Group's shareholding has been subsequently raised to 77% following the completion of an exercise to consolidate odd-lot holdings. The Konongo and adjoining Kurofa concessions cover 192 square kilometres and are along the strike of the prolific gold-producing Ashanti Sheer Zone. A processing plant is located northwest of the capital city of Accra, about 50 kilometres from the country's second largest city, Kumasi, which supports mining activities in the area. Facilities here include a 250 tonne per hour crushing plant, a ball mill, a 200,000 tonne per year Carbon in Pulp/Carbon in Leach (CIP/CIL) plant, a trommel with Knelson concentrator and an RG200 APT gravity plant. Management works closely with the 18 surrounding agrarian communities which reside on the concession land to mitigate impact of the mining operations on farming activities and to coordinate additional social welfare efforts.
Under the directive of a new management team, Signature announced in the March 2013 quarter a change in operational focus in the interest of optimising capital expenditure and to fast-track an assessment of the more extensive high-grade refractory sulphide gold ore underground. Trial mining was ceased as this had yielded only 8,600 ounces of gold bullion from March to December 2012. Site activities reverted to an aggressive exploration programme which is continuing into 2014 financial year. A technical life-of mine study to assess the commercial viability of a larger scale underground mining operation is now underway, and a metallurgical assessment is also being carried out on the deeper segments of the ore body (http://www.thebftonline.com).

III. CONCLUSION

Using the findings as the basis, the study came to a conclusion that the main purpose or rationale for procurement outsourcing at Owere Gold Mines Limited is no other reason than to improve the focus of the company. There are other motives behind the choice of outsourcing as a procurement operation strategy such as reduce and control cost, gain access to world-class capabilities and share risk with the outsourcing service provider, the company's utmost drive was to delegate non-core function to a third party that has comparative advantage in outsourcing and rather concentrated on the gold production which represents the main service area of Owere Gold Mines Limited.

Again, it can be concluded that the story about procurement outsourcing does only depict rosy lines throughout. There are equally challenges or risks associated with this strategy as positive. Owere Mines Limited saw hidden cost in procurement outsourcing as their number challenge. Miscommunication, possibility of weak management, poor infrastructure, and delay in payment of items supplied are some of the identified challenges of outsourcing at Owere Gold Mines Limited.

The study concluded that these challenges identified could be managed when outsourcing organizations do exercise tactfulness in the selection of outsourcing service provider with a wide skill set and operational coverage. This will help both the outsourcing company and outsourcing service provider minimize hidden costs associated with outsourcing. For instance, if the outsourcing service for Owere mines had presence in the Ashanti region, the cost of transporting items to the mine site would reduce and so is the rate at which items are delayed.
From literature, analysis and the findings of the study, it can be said that the adoption of procurement outsourcing by organization as business process strategy is a step in the right direction. This is because procurement outsourcing has the potential to make procurement organizations profit centres as compared to the traditional notion of cost saving function.

A. Recommendations

The recommendations of the study were based on the summary of findings and conclusion from the results and discussion. Premised on the above the following recommendations have been made.

Since procurement outsourcing is not immune to operational risks and challenges, the following are some of the key recommendations that organizations should consider when venturing into procurement outsourcing.

- Organisations planning to venture into procurement outsourcing should evaluate the competency level of its internal procurement. This involves a thorough assessment of staff and capacity to engage in outsourcing service provider. In doing this potential risks are noticed and proper measures instituted to manage these potential internal and external risks. Again, this thoroughly assessment will assist the outsourcing organisation to employ the services an outsourcing service provider with the needed skill-set and capacity to provide the required services that can boost the company's profit margin

- *One very key step for successful implementation of procurement outsourcing is to ensure the involvement of qualified and trained procurement professionals in the assessment and also engage an advisor from a key procurement service provider to support the assessment.*

- *Again, after the selection of procurement service provider, the entity should pay close attention to performance management. In so doing, loopholes in outsourcing relationship can be detected in time to prevent the failure of the business process. The success of every procurement outsourcing relationship is highly dependent on the service provider selected and how it manages the relationship.*

- *In a situation there are already existing best practices around procurement process, the outsourcing organisation can maintain the standards through the organisation of refresher programmes for procurement stakeholders. This enhances the job delivery and performance of employees and subsequently growth of the company's output.*

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