STRATEGIC OUTSOURCING AT ANGLOGOLD ASHANTI: A SUCCESS OR FAILURE

By

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DECLARATION

'I hereby declare that this submission is my own work towards the Master of Business Administration (Strategic management and management consulting option) Degree and that, to the best of my knowledge, it contains not material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text'. (Source: Manual for Thesis Presentation for Master's and Doctoral Degrees, School of Graduate Studies and Research, KNUST, 2010).

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ABSTRACT

Mining companies are continuously looking to implement newer operation models into practice, finding more ways of increasing productivity, reducing costs and improving effectiveness. Environmental and contextual changes presents a number of competitive challenges to organizations with new trends and patterns emerging and giving rise to a new economy influenced by the new factors that are changing the work system. In mining and mineral business, the worldwide usage and importance of outsourcing has grown dramatically over the last decades. Outsourcing is only one possible solution to the problem and a strategy practiced by many management teams. This study aims at investigating how successful outsourcing has been at AngloGold Ashanti Obuasi mine. This work pursues a descriptive strategy. Primary data was collected from twenty-five (25) key staff of the procurement division of AngloGold Ashanti using questionnaires, semi-structured interviews and observation from the staff and management of the procurement division of AngloGold Ashanti, Obuasi mine. Data was coded and analyzed by the use of SPSS and Excel. Outsourcing in the mine has been overall a success tactically and operationally as it has improved the quality of operations, helped reduce cost and improved company focus. The company relies heavily on general vendor contract arrangements with outsourced firms to manage and control work outsourced. Primarily, reliability and credibility of prospective supplier firms provides the framework for contracting and building a strong partnership. The mine outsources key supporting work for which they have not the expertise like shaft maintenance and transport of materials and security. The focus is on keeping their core business in-house. Outsourcing however has brought its own challenges of laid of staff and loss of employee morale for those retained. It is recommended largely that the mine focuses more on building strategic alliances with other firms as it opens up the opportunity of tapping into other strengths whilst reducing your risks. The company must aim to use outsourcing proactively through a stronger focus on internal core business areas as a way to improve performance, generate employee commitment and consequently increase competitiveness and profitability. This presupposes that management creates a culture in the organization that enhances the core business and recognizes the benefits of outsourcing complementary competencies.

DEDICATION

I dedicate this work to my lovely and supportive family and friends! Love you all!

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Entering the third millennium, most industrial sectors face intensified conditions both in the marketplace and within the corporate boundaries. Formerly, customers focused mainly on low cost, high quality and good delivery performance. Presently, they also expect short product life cycles and time-to-market, innovativeness and customization (Sanchez, 1997). On the other hand, the companies and their suppliers are experiencing the emergence of a global economy and rapidly changing markets. At the same time, the complexity of products and technologies is increasing and their functionalities are expanding (Christopher, 1998). Globalization and technological innovation appear to be common denominators of these business challenges. From a corporate strategy point of view, they add new competitors and put strong pressure on companies' competitiveness and profitability. From a combined business and functional strategy viewpoint, they call for improved organizational adaptability and more flexible and advanced systems. In consequence of these internal and external conditions, companies must be able to change their organizations, operations, product portfolios, customer segments, etc. rapidly and efficiently as well as on a continual basis.

Subsequently, firms are driven to conduct a few functions in-house and to obtain the rest from other avenues through aggressive outsourcing. Outsourcing however is not a new concept. Firms already started outsourcing in the 1970s, with a major wave of outsourcing starting in the early 1990s (Hätönen & Eriksson, 2009). However, the nature

of the functions being outsourced is changing radically. Traditionally, outsourcing was restricted to activities like distribution and manufacturing, and support activities, like payroll services, human resources, and information technology provision. Today, firms are increasingly outsourcing strategic functions that are relatively more crucial to their business (Gottfredson, Puryear and Phillips, 2005; Katz, 2006), such as new product development and front-end processes like customer support.

Adding their voice to the debate, Quinn and Hilmer (1994), stated that two new strategic approaches, when properly combined, allow managers to leverage their companies' skills and resources well beyond levels available with other strategies: Concentrate the firm's own resources on a set of core competencies where it can achieve dependable preeminence and provide unique value for customers and then strategically outsource other activities including many traditionally considered integral to any company for which the firm has neither a critical strategic need nor special capabilities. They further claimed that outsourcing processes have faced an evolution from traditional to strategic outsourcing. Strategic outsourcing looks for overall business improvement rather than simple cutting costs.

But according to Gilley and Rasheed (2000), outsourcing is never simply a purchasing decision. Because of that, outsourcing is a highly strategic decision. Outsourcing initiative becomes strategic when it goes along with the organization's long-term strategies. While tactical outsourcing is more featured with a problem-solving mentality, strategic outsourcing takes it to a higher level. It takes into account the whole performance and structure of the organization by asking questions about outsourcing's relevance to the organization and its vision of its future, current and future core

competencies, current and future costs and current and future competitive advantages (Greaver, 1999).

Mining companies are continuously looking to implement newer operation models into practice, finding more ways of increasing productivity, reducing costs and improving effectiveness. Outsourcing in the mining industry has evolved from outsourcing peripheral activities like security or cleaning to more strategic activities like drilling, hauling, maintenance and even mining (Kenny & Bezuidenhout, 1999). This industry's sector is thus offering interesting facets for outsourcing as a practice due to the remote locations, mine lifecycle, limited and specified supply market and challenging production.

Production in mining industry is highly dictated by geographical factors, and it cannot be moved to other locations, for instance to the lower-cost countries or near better supplier markets. Mines are built around several different process functions which naturally consume a wide scale of different services and products. This tremendous scale of different products can be one driver for outsourcing. However, multiple suppliers can always result in some additional coordination costs and other outsourcing risks which can lead to a low outsourcing level. Mining industry has several characteristics that can cause opportunistic behavior, such as small number of bargaining, high asset specificity and market uncertainty. Therefore, outsourcing managers are facing practical issues relating to the decision of when to outsource and which outsourcing contract to select. That could clarify the general procurement process and help also the operational managers to evaluate the outsourcing contracts and providers and it could prevent the possible gaps in the contractual completeness. Depicted processes might also

help mining companies to coordinate and control the service providers, since the ongoing and daily tasks are more easily tracked (Niskanen, 2013).

1.2 STATEMENT OF THE PROBLEM

An outsourcing strategy should be an outgrowth of AngloGold Ashanti's overall strategic plan and be directly aligned with the company's aims and goals. It is important that managers who are responsible for implementing the outsourcing plan have a clear understanding of the overall strategy and the part outsourcing plays. The primary driver for outsourcing is to reap cost benefits (Price Water house Coopers, 1999). However, recent strategic literature suggests that reasons for outsourcing have changed from primarily cost disciplines to strategic re-positioning, core competence enhancement, greater service integration, and value creation (Quinn, 1999).

Sharing their perspective, Kakabadse and Kakabadse (2002), comparing reasons for outsourcing showed that after cost control and aiming to achieve best practice but prior to focus on core competence and access to new technology sourcing purchasers rank improved service quality as the third most important reason for outsourcing. They further stated that, companies cannot successfully outsource if they do not understand the nature of their own problems. In order to gain value advantages, organizations must be able to understand their own business and its processes before handing them over to suppliers (Kakabadse & Kakabadse, 2000). There is the need therefore for organizations to evaluate the purpose and drivers of its outsourcing strategy and investigate how their approach has fared with changing dynamics of time and make adjustments so as to improve upon the practice and consequently production and profitability,

According to Niskanen (2013), current outsourcing research can be divided into four main thematic areas 1) Why to outsource, which takes into account the relative risks and benefits of outsourcing. 2) What to outsource which is logically tied together with the why particularly in earlier outsourcing literature. 3) How the outsourcing engagement should be conducted and finally, searching for 4) what are the main success factors with outsourcing. This provides a holistic framework for assessing the outsourcing strategy of companies. Individually, they must be able to write their 'success stories' taking advantage of these new improvements in approach and strategy. Companies seeking to achieve a competitive edge must analyze their approach on this basis to evaluate their performance and strengthen their outsourcing capabilities.

Outsourcing in mining industry is not a commonly investigated topic in academic literature although some studies can be found, for example; Stacey et al. (1999) investigated the outsourcing of professional services in mining industry. According to them, several benefits can be assessed through outsourcing in mining industry, in contrast, with possible risks in same. Kenny and Bezuidenhout (1999) investigated the changing nature of subcontracting in the South African mining industry. In Ghana, Asare-Boadi (2009) did a work on the supply chain management and purchasing practices in the gold mining industry which revolved around decision making in mining contracts including outsourcing. He used AngloGold Ashanti as a case study. Oppong-Amankwah (2009) also looked at the role of management of strategic outsourcing in the mining industry, a case study of Newmont Ghana limited. As an attempt to contribute to filling this gap, this research was conducted to ascertain whether the practice of outsourcing at AngloGold Ashanti has achieved the success desired or being fraught with difficulties

which has rendered it a failure. By improving the knowledge on this, it can lead to a better decision making at the strategic level in the mine and other mining companies

This research is to investigate strategic outsourcing at AngloGold Ashanti Obuasi mine whether it has been a success or failure.

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1.3 RESEARCH OBJECTIVES

The research objectives are broken into two; the general objective and the specific objectives

The general objective of the study is to investigate how successful outsourcing has been at AngloGold Ashanti Obuasi mine. The specific objectives are as follows:

- To identify factors influencing outsourcing decisions at AngloGold Ashanti Obuasi mine.
- To examine the outsourcing process employed at AngloGold Ashanti Obuasi mine.
- To identify the business functions being outsourced at AngloGold Ashanti Obuasi mine.
- To assess the success of outsourcing practices at AngloGold Ashanti Obuasi mine.

1.4 RESEARCH QUESTIONS

My specific research questions have been the following:

1. What are the factors that influence outsourcing decision making at AngloGold Ashanti Obuasi mine?

2. How is outsourcing done at AngloGold Ashanti Obuasi mine?
3. Which business functions are outsourced at AngloGold Ashanti Obuasi mine?
4. Has outsourcing practices at AngloGold Ashanti Obuasi mine been a success or failure?

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1.5 SIGNIFICANCE OF THE STUDY

Outsourcing is critical for both the size and the sustainability of the economic impact of mining operations. This point cannot be overemphasized, and it is perhaps the strongest result of this studies. This study will therefore assist management in its outsourcing decision making as it assesses various facets of outsourcing and brings out various challenges in AngloGold Ashanti Company Ltd. This will open up various interventions and policies that can be employed to better manage outsourcing at AngloGold Ashanti, Obuasi mine. AngloGold Ashanti is taken as a case study because as a multinational company, many of its inputs are outsourced on a global level, and as such work done in this regard will help to evaluate the company in terms of comparative cost reduction advantage and tremendous increase in corporate performance and profit.

Again this study provides the platform for evaluating the operational practice of outsourcing in the mining industry and how key suppliers both current and potential can structure their strategies to better serve the needs of the industry. Especially in the case of local companies who seek to be major outsourcing partners of the mine. In most cases, outsourcing has increased over time and is the key source of entrepreneurial development. Moreover, the multiplier effects of the operation are much larger if there is substantial local outsourcing. This occurs both because the monetary injection is greater

and because employees of local contractors usually spend more of their money in the local economy.

Furthermore, government which is a key player in the mining industry through the results of this study can better position itself and formulate policies and interventions to better support the industry which automatically will boost overall contribution of the industry to the country's GDP. The outcome of this study will help academia in integrating the literature on strategic outsourcing with the trust, teamwork, and organizational factors literature based on resource-based view, network theory, and contingency theory and will provide a holistic understanding of how strategic outsourcing capability relates to operational effectiveness and performance.

Further drive for this research is the argument that successful management of outsourcing projects is a key success factor for many leading world-class companies. Interestingly, the operations literature is devoid of any research study, empirical or analytical, that assesses the link between firms' outsourcing capabilities with key indicators of firms' performance in the mining companies in Ghana.

1.6 OVERVIEW OF RESEARCH METHODS

Both qualitative and quantitative approach was used in this research work. The researcher concentrated on examining the relationship between strategic outsourcing and outsourcing success. A purposive sampling method was employed in gathering data for the study. Both primary and secondary data were used for the study. Primary data were collected from respondents which consisted of people in both managerial and supervisory positions of AngloGold Ashanti as well as some selected outsourced firms of AngloGold

Ashanti Ltd. Data covered on general assessment of outsourcing in the company. Data was collected through direct visitation, observation, interviews and semi-structured questionnaires. Secondary data were taken from the company's own record of its outsourcing practices. This covered the period from 2000 to 2010.

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1.7 SCOPE OF THE STUDY

This research aims at taking an extensive look at assessing outsourcing practices management of mining companies in Ghana with particular emphasis on AngloGold Ashanti, Obuasi Mine as the case study. This research work is based on the five thematic drivers in outsourcing identified by Lacity and Willcocks (1998). These drivers include cost, flexibility, time, innovativeness and quality. AngloGold Ashanti Obuasi mine is taken as a case study because as a multinational company, its inputs are outsourced on a global level, and again, it is an old mine with a rich history and which passed through different management policies in 2004 when AngloGold South Africa bought out Ashanti Goldfields the previous shareholders.

1.8 LIMITATIONS OF THE STUDY

The study was supposed to cover mining companies in Ghana, however, the researcher chose Anglo-Gold Ashanti, Obuasi mine as a case study to represent mining companies in Ghana, because of time and financial constraints. The mining companies in Ghana are spread widely throughout the geographical breadth of the country. As such research to cover all requires a form of funding from external sources and a team in order to do it within the time frame allotted for student research work. On this basis and for the purpose of academic work as partial fulfillment for the requirement for a degree in Masters of Business Administration, the research was limited to the AngloGold Ashanti mines.

However it is believed the above mentioned shortfalls does not hamper the credibility of information herein contained to any marked degree. Another significant constraint is that mining companies especially are reluctant to release information so as such the researcher had to work with what information he had from trusted websites, company's reports and other trusted sources.

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1.9 ORGANISATION OF THE STUDY

The study is divided into five chapters. Chapter One deals with the background, the statement of the problem, objectives, research questions, justification of the study, methodology, scope, limitation as well as organization of the study. Chapter Two provides an overview of existing literature. This chapter provided a review of already existing literature on this topic. Chapter Three gives the profile of the selected organization to be studied. It also describes the data that form the basis for the research reported in this paper and provides an overview of the methods or the methodology used in the study. Again it deals with the theoretical framework and the empirical model that underpins the analysis of the data. Chapter Four reports the results of the empirical analysis. That is, it deals with the presentation, analysis and discussion of the data collected from the field. Chapter Five which is the last chapter looks at the conclusion, recommendation and policy implications of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter introduces the concept of outsourcing as practiced in the business environment. The chapter takes a look at the concept of outsourcing, common business functions outsourced, drivers of outsourcing, the outsourcing process, challenges commonly faced with outsourcing decisions, the merits and demerits of outsourcing and then managing the outsourcing contract, the mining industry and outsourcing in mining industry.

2.2 CONCEPT OF OUTSOURCING

The concept of outsourcing examines the various definitions of outsourcing proposed, the various terms commonly encountered in outsourcing and the history and evaluation of the outsourcing concept.

2.2.1 Definitions of outsourcing

Various several theories have been postulated about outsourcing along with many varied definitions of the concept. All attempting to give a better picture of that singular practice that is believed to turn businesses around and to help them achieve their objectives better and in a cost efficient manner. We look at some of the definitions put forward and examine how they all play together in helping us understand better this concept.

Outsourcing is an umbrella term that includes a variety of sourcing options with different characteristics and for different business objectives. This follows Sanders et al. (2007) broad specification of outsourcing, which indicates that outsourcing involves choosing a

third party or an outside supplier to perform a task, function, or process, in order to incur business-level benefits. One of the most important questions to the firm's organizational strategy therefore is what to produce internal and what to buy from external providers (outsource). Therefore, a definition of firm's boundaries and organizational strategy culminates in the make-or-buy-decision.

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Outsourcing is the process of assigning a company's business processes to an external agency in lieu of enhancing service quality, driving innovation or deriving benefits of lower labor costs. When outsourced to organizations located in other countries or to foreign subsidiaries, Outsourcing often takes the form of offshoring, also known as offshore outsourcing or offshoring. Thus, outsourcing can be defined as an agreement in which the outsourcing firm delegates an activity to another company, viz. the outsourcing provider (Gilley & Rasheed, 2000). Gavin and matherly (1997) also defined outsourcing as utilizing external providers to satisfy any of a company's capital requirements of material, labour, plant or equipment.

In support, Greaver (1999) once stated that not only are the activities transferred but the factors of production and decision rights also are as well. He went forward to define the factors of production as the resources that make production and includes the human resource, facilities, equipment, technology and other assets and decision rights as the responsibilities for making decisions over certain elements of the activities transferred. Outsourcing is often undertaken to provide enterprises a competitive advantage by delegating business process to external agencies and realizing the benefits of low labor, better quality and improved innovation.

Adding his voice, Bendor-samuel (2000) also emphasized that the key to the definition of outsourcing is the concept of transfer of control in that outsourcing is said to have occurred when an organization transfers the ownership of a business process to a provider thus the transfer of ownership is what defines outsourcing and makes it the much challenging and excruciating process it is. Economists are almost unanimous: Outsourcing is a good business strategy. It improves efficiency, cuts costs, speeds up product development, and allows companies to focus on their "core competencies." And for the most part, they are right.

One of the most complete definitions of the outsourcing concept is given by Heywood (2001). He defines it as the transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offers a defined service for a specified period of time, at an agreed but probably qualified price. It must be understood that the control of the function in question will thus reside with the service provider. This outside organization, as a specialist in its field, will usually be in a position to add value not normally obtainable in a non-core function retained in house.

In this respect, outsourcing involves the passing of a lot more than just the responsibility for services; it includes risk, a level of involvement in the strategic direction of the company, a high degree of trust, a focus on the value created and not just the costs saved. In essence, outsourcing is significantly more than a service contract.

The saying used to be "if you want something done right – you should do it yourself."

These days it is more likely to be, "if you want something done right – give it to an expert."

2.2.2 Outsourcing terms

Outsourcing takes on various forms and descriptions amongst different aspects and industries. Some terms and expressions also have become synonymous with the concept of outsourcing to the extent that sometimes clarity has been missing and much ambiguity attributes to the various terms. As a result, let us review some of the terms and expressions and establish how they connect to outsourcing.

A very common word usually associated with outsourcing especially in supply chain management is *Facilities Management.* Whereas the term 'outsourcing' is normally associated with adding value, a 'facilities management' agreement simply transfers responsibility for the management of existing staff, property and equipment (Rosenberg et al, 1993). Thus the focus of facilities management is just 'caretaking agreement' and not development as seen in outsourcing.

In the outsourcing practice, *Full or Total Outsourcing* is used to indicate that the staff and possibly assets relating to the whole of a major business area (in practice about 90%) such as IT, finance or human resources, are transferred to the service provider for the period of the contract. This means in effect, the parent company handles very little of the actual work engaged in and this presents whole advantages and disadvantages on its own.

Another kind of agreement which is practiced but do not involve signing of huge portion of work to outside firms is *Part or Selective Outsourcing* where a significant part of the function is retained in-house.

A more commonly practiced kind of outsourcing is *Transitional Outsourcing.* Examples of this are normally found with the outsourcing of IT functions. An organization transfers control of its legacy systems/platforms to a third party in the belief that its own internal IT staffs have the abilities necessary for the development of new systems. Most organizations prefer this kind in that it offers them the opportunity to focus key strength in research and development.

A more radical approach to outsourcing is found in *Transformational Outsourcing where* an organization brings in a service provider to completely re-engineer the work of the function, probably developing new systems and building up a reliable skill base for the client. Transformational outsourcing differs from full outsourcing only in that the transfer of people and assets is not permanent – at the end of the project the client regains full control and responsibility. There is therefore a very fine line between transformational outsourcing and a straight consultancy assignment.

A *Joint Venture Outsourcing* offers another alternative in outsourcing. A joint venture agreement involves the setting up a new company to exploit a perceived business opportunity. The client's staff and assets are transferred to this joint venture company rather than to the service provider. The aim is not only to improve the transferred service but more importantly, to develop new products and services that can be sold to a third party. Client and service provider then share in the profits.

Similar to joint venture outsourcing is the *benefits-based relationship* which is a long-term relationship based on both parties making an up-front investment in the relationship and sharing the benefits as they accrue according to a pre-agreed formula. In this way

both parties take a risk and participate in the reward. If the benefits of the relationship do not materialize, then the external supplier is not guaranteed any recompense for effort or input. It presents a mutual front for building an outsourcing agreement.

Some outsourcing relationships have been strengthened through the taking of an *equity stake* in either the organization or the service provider by the second party. Where it is the service provider taking this step, it may be seen as a demonstration of their commitment to the Client. On the contrary, when it is the organization that takes up an equity stake in the provider, this is seen as a form of collateral security.

An alternative approach to securing productivity gains is by improving the operation of an area so that work from other businesses can be undertaken. In this way skills can be retained and assets exploited, resulting in low unit costs for the *insourcing* business. While this does not free up management time, it does provide a way of making a viable business unit out of an activity that may be too small on its own but is too important or difficult to outsource, for whatever reason.

Co-sourcing terminology has been used in the literature to describe outsourcing arrangements involving multiple service providers. This implies sometimes a particular outsourcing agreement could involve more than two parties especially if the project is multi-skilled and each of the parties offers unequalled strength in particular fields.

2.2.3 History and evolution of outsourcing

Outsourcing itself is not a new concept, the rationale being the fact that if an outside agent or contractor can perform a business function either better, faster or at a considerably reduced cost relative to the business itself than the outside

contractor should do it unless these are core competencies. Outsourcing is therefore an offshoot of the classical dilemma that firms encounter in their day to day activities of whether to purchase or produce.

In the 1990's, some management theorists argued that the important factor in maintaining competitiveness was the differentiation between core and non-core functions. Concluding with the transfer of non-core functions to a specialist in that field. As discussions on the subject increased and evolved, the concept of the virtual organization was born. The theory behind the virtual organization is that any function that is not core should be transferred to an external specialist. In addition, however, it is argued that there are sure to be organizations that may possibly perform your core function better than you do – so why not transfer those as well (Heywood, 2001). The virtual organization concept may be very new, but externalizing functions to outside specialists has been practiced for many years under various names, contract manufacturing, facilities management, outsourcing and insourcing. Many major firms of accountants will freely admit that even at the beginning of the twentieth century they had clients for whom they did the 'books' rather than just the audit, and this situation remains true today (Johnson, 1997).

According to Koszewska (2004), Outsourcing dates back to the 1970s. Initially it only involved IT-related issues, but gradually more and more enterprises realized that they could not be experts in more than one or two fields. This conclusion made them get rid of various areas of activity and entrust them to specialists. According to a survey by Fortune magazine, over 90% of business organizations today take advantage of external service providers, and in the European market alone the 2001 estimate of such services was

US$27 billion, which is growing from year to year. Originally, outsourcing was only used by large corporations, but nowadays it is becoming more and more popular among small-sized enterprises. The broader use of outsourcing in the industrial market results from the build-up of competitive pressures and progressing globalization. As the environment becomes increasingly complex, faster and faster advancement of technology, with the consequent changes in the conditions in which any given enterprise functions, necessitate the search for more and newer methods which keep one ahead of one's competitors. In the past the key to success was bulk; today the importance of high quality is growing (Koszewska, 2004).

As the managerial paradigm shifts from bigger is better to lean and mean, and from high-volume to high-value, companies are being forced to identify exactly where they have the greatest competitive advantage, and to redefine their organizational structures to maximize that advantage. An increasingly common way for organizations to try and increase their flexibility and generate high value is through outsourcing. This situation requires precise identification of the line of business one wishes to follow (ensuring a competitive advantage) and a careful analysis of its weak and strong points. One important result of this process is a recognition and reassessment of those activities which are not core in particular, whether these non-core activities should be carried out by the organization itself (make) or outsourced to a specialist third party (buy) (Heywood, 2001).

In recent times, environmental and contextual changes presents a number of competitive challenges to organizations with new trends and patterns emerging and giving rise to a

new economy influenced by the new factors that are changing the work system. With high competitiveness, new and innovative organizations springing up, organizations are continuously forced to improve their business performance to achieve a competitive advantage.

These organizations actually cross their traditional boundaries just to achieve optimum, efficient and cost effective performance. Many of these organizations have been turning to outsourcing increasingly in an attempt to enhance their competitiveness, increase profitability and refocus on their core business (Adeyemi & Salami, 2008).

2.3 OUTSOURCING OF BUSINESS FUNCTIONS

Scholars adopting the strategic perspective and practitioners adopting conventional wisdom argue that core activities should stay in-house, whilst non-core activities can be outsourced, in order to preserve core competencies (Mullin, 1996). Where ``core competencies" (Prahalad and Hamel, 1990) and ``distinct capabilities" (Kay, 1993) are essentially a ``bundle" of corporate skills that cut across traditional functions, such as product or service design, technology creation, customer service, and logistics, certain scholars postulate that outsourcing decisions should be driven by the nature of the sourcing contracts, the contractual and informal relationships between the purchaser and supplier, the use of market opportunities for competitive advantage, and the successful management of contracts (Willcocks & Fitzgerald, 1994).

However, defining what is core competency for any one organization is fraught with many ambiguities. Some regard core activities as core competencies, namely those activities that the firm is continuously engaged in, whilst peripheral activities are those

that are intermittent and therefore can be outsourced (Quinn & Hilmer, 1994). Alternatively, Alexander and Young (1996) suggest that four meanings are commonly associated with ``core activity'':

(1) those traditionally performed in-house; (2) those critical to business performance; (3) those that create current or potential competitive advantage; and (4) activities that will drive further growth, innovation, or rejuvenation.

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Others argue along the lines of Porter's (1990) competitive advantage thinking, asserting that core competencies are those activities that offer long-term competitive advantage and thus must be kept in-house (Prahalad & Hamel, 1990; Quinn & Hilmer, 1994), exemplified by Sony's capacity to miniaturize components and Philips' optical media expertise and applications (Prahalad & Hamel, 1990). This view contends that many traditionally considered integral activities, for which the firm has no crucial strategic need, can be outsourced (Quinn & Hilmer, 1994). They coined the term ``strategic outsourcing'' in order to provide a guide as to what is the strategic core of the firm and those other activities which are necessary to attain the firm's strategic goals. When a service adopts more of a commodity status and loses its differentiated advantage versus competitors, service providers are likely to increase reliance on external suppliers and redirect own capabilities to other high value-added areas (Venkatraman, 1997).

The debate concerning what is core and what is peripheral (Prahalad and Hamel, 1990), or in other words which processes a company should focus on, has lately been transformed into an academic discussion as outsourcing decisions should be driven by

more factors such as the nature of the outsourcing contracts, and the contractual and informal relationship between the purchaser and supplier (Kakabadse & Kakabadse, 2002).

Concluding this argument implies that administrating outsourcing connections efficiently becomes a core competence in itself. If these relations are not managed correctly it is doubtful if any competitive advantage is achieved for the service purchaser. Additional to the arguments of economies of scale and strategic sourcing is the opinion that outsourcing now embraces not only a single function but reconfigures whole processes in order to realize greater value within a company's value chain. As so the trend is to outsource entire value adding systems and activities, such as customer response handling systems, procurement and management (Falk & Hagman 2002). However, outsourcing has the potential to break down sets of interconnections and relations within organizations, and as such is strong enough to tear entire value systems (Kakabadse & Kakabadse, 2000). Therefore it might be hard to state what a core competence is and what a core competence is not as these are linked together.

2.4 REASONS/DRIVERS FOR OUTSOURCING

An international comparison of reasons for outsourcing (Kakabadse and Kakabadse, 2002) showed that after cost control and aiming to achieve best practice but prior to focus on core competence and access to new technology sourcing purchasers rank improved service quality as the third most important reason for outsourcing.

In common thought, Heywood (2001), The Outsourcing Institute (2002) and others share that a clear understanding of the original and underlining driver/s to outsource is

paramount and must be agreed upon between the organization and the service provider. As much as it is important that the internal situation is clearly identified, it is essential for the organization to draw up a profile of the ideal service provider before contacting anyone. The organization should consider the following factors in descending order of priority when creating a short list of potential service providers: (Heywood, 2001);

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Credibility which is how much experience does the service provider has i.e. how many existing clients? Also, *Reliability* which determines whether the provider satisfy its client's needs? *Flexibility* concerns itself as to the provider's flexibility to match the organizations' needs in the short term and be able to adjust in future if the business grows substantially or declines? Predominantly, *Skill base* shows whether the provider have the skills for now and future possible demands? Moreover *Potential savings* ascertains if this provider will be able to offer greater or lesser savings than others? The *Service* looks at how will this provider's service compare with what the organization currently enjoys or what others may provide? The *Management skills* factor proves if the organizations' business grows or a contract comes in, does the provider have the management time, skills and desire to support the newly established needs? Overall *Personnel policy* is considered as what is the provider's personnel policy and how will this affect the organizations' employees? Relevant *Transition skills* answers how effective they have been in bringing about past transitions: have they met the required timescales and what has been the effect on previously transferred staff? Important *Contract questions* stating as to whether the provider uses its greater experience and tie the organization down under a tight contract, or will it allow a partnership arrangement? And very importantly, *In-*

house expertise and control which is if the provider will make sure that the organization does not lose the expertise and control necessary to maintain and develop the business?

According to Kakabadse and Kakabadse (2000), there are two prime reasons for outsourcing, scale economies and strategic sourcing. With scale economics, they said, a major influence impacting on the outsourcing of products and/or services is consideration of scale and costs (Finlay & King, 1999). The search for greater efficiency, in turn, has led to increased specialization, and as such, outsourcing is seen by certain writers as a manifestation of this trend (Domberger, 1998). Research shows that, even in the late 1990s, cost-savings and freedom to focus upon core business are still major reasons for outsourcing (Currie & Willcocks, 1997). DiRomualdo and Gurbaxani (1998) argue that firms use outsourcing in order to satisfy any one or more of three strategic intents, namely strategic improvement (cost reduction and enhancement of efficiency), strategic business impact (improving contribution to companies' performance within existing lines of business) and strategic commercial exploitation (focus on leveraging technology-related assets).

They further suggest that, the reason for outsourcing has changed from primarily cost disciplines to strategic re-positioning, core competence enhancement, greater service integration and/or higher value creation (Quinn, 1999). He further suggests that unless the company develops best-in-world capabilities, including transaction cost disciplines, the company should purchase goods/ services from providers who have best-in-world skills, in order achieve competitive edge. Whatever the reasons for strategic sourcing, a prime purpose still remains, reduction of costs, but that at the same time cost considerations

have also been escalated to strategic levels of decision consideration, thus promoting new organizational forms and alliances.

However, Fill and Visser (2000), claim that the outsourcing decision cannot be evaluated through cost and strategy alone. It is important to consider the internal and external environment within which an organization operates. According to them, the decision of what to outsource culminates with those elements that differentiate the organization from others, especially in the areas of value and quality. These are the contextual factors represented by an organization's particular internal and external conditions. By using these key aspects they propose a composite outsourcing decision framework (CODF) to depict the complexity of the issues that affect the decision to outsource.

2.5 OUTSOURCING PROCESS

This topic presents the theoretical underpinnings of outsourcing and also the different levels of outsourcing engagements. Different prescriptive models of the outsourcing process are also discussed. Further, discussions on critical elements in outsourcing process as well its implications on outsourcing performance, selection of the outsourcing scope and eventually the existence of contractual completeness and relationship management are made.

2.5.1 Theoretical underpinnings of outsourcing

There are various research streams underpinning 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).

Outsourcings are nowadays done both domestically and internationally. International outsourcing can also be referred to as offshore outsourcing, and it involves the transfer of both the ownership and the location of the operations. Offshoring is often used synonymously with offshore outsourcing which actually means the strategy of transmitting activities across national borders (Harland et al. 2005).

Outsourcing has three evident types since it first evolved: Manufacturing outsourcing, Information technology outsourcing and Business process outsourcing (Mahmoodzadeh et al. 2009). Manufacturing outsourcing is the production of a part, component part or service and IT outsourcing involves the outsourcing of IT resources. Business process outsourcing whereas represents the outsourcing of a whole business process, to which the service provider takes full responsibility. Business process outsourcing differs from traditional outsourcing procedure in that it affects more higher level of expertise than knowledge, which have until recently been ignored by the threats of outsourcing (Duan et al. 2009). In literature, the most used theoretical perspectives of outsourcing are transaction cost theory, resource-based view, and core-competences.

2.5.1.1 Transaction cost theory

A one traditional and very popular theoretical approach for firms' boundary decision is transaction cost theory. Transaction cost theory suggests that the decision of whether the products and services are bought or provided in-house is determined by the most profitable option (Holcomb & Hitt, 2007). To put it simple, if using the markets results in

lower transaction costs than doing that activity internally, then it should be bought from the market (Hätönen & Eriksson, 2009).

Transaction can be characterized with the degree of asset specificity, the complexity of the transactional relationship and the frequency of the transaction (Greenberg & Antonucci 2008). Therefore, transaction costs evolve from three elements: the transaction itself, business environment and the transaction parties. Transaction costs include 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 made which are specific to a particular relationship.

However, according to Holcomb and Hitt (2007) transaction cost theory implies that all firms facing a similar transactional attributes and a set of exchange conditions will end up with the same internalization decisions. In reality buyers are seeking a broader range of strategic contributions from their suppliers. Beyond short-term cost savings, there are many other motivations for outsourcing, for example acquiring superior resources and knowledge and competences from external providers.

2.5.1.2 Resource-based view

The resource-based view views the firm as a bundled set of assets and resources that if employed in distinctive ways can create competitive advantage. Resource-based viewpoint is based on the theory that companies utilize outsourcing to get resources not available internally. Theory was generated after transaction cost theory lost some relevance in that the cost being literately only decision-making criteria (Holcomb & Hitt,

2007). Resource-based view of the firm emphasizes the importance of resources in guiding firm's activity. According to the theory, the management of a firm's collection of capabilities is central to a company's competitive advantage (Handley & Benton, 2012). More specifically, the theory contends that the reasons for outsourcing is related to the conditions that enable firms to establish, maintain, and use capabilities more efficiently than markets can do (Holcomb & Hitt, 2007). In that, the operational effectiveness is determined by how effectively companies employ their resources: the ones which are internal and the ones which can be procured from external providers (Hätönen & Erikkson, 2009).

However, as the transaction cost theory, the resource-based view has been remarked for being too simple an approach to describe more complex 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 subscribes a competitive strategy model rather than a decision model of outsourcing (Dekkers, 2011). Maybe that explains why in recent years, some transaction cost scholars have accepted that transaction-based and resource-based perspectives deal with partly overlapping phenomena, often in complementary ways (Holcomb & Hitt, 2007). While resource based view has directed companies to focus on core competencies, the transaction cost theory helps the organization to decide which of their non-core functions should be bought and which to make in-house (Logan, 2000).

2.5.1.3 Core competencies

Slightly consistent with the arguments of resource-based view, the theory of core competencies focuses on strategic decision making itself (Dekkers, 2011). According to this theory, focusing on core-competencies raises the key issue on which areas a company

should concentrate to balance their make-or-buy decisions (Gilley & Rasheed, 2000). For example, Dekkers (2011) found out that the core competencies approach has mostly driven the outsourcing decisions made by the companies. His study of manufacturing firms and their outsourcing decisions also reveals that the operational issues had been hardly 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 regard core activities to be core competencies, which are the ones firms are continuously engaged in, whereas peripheral activities are more intermitted and can rather be outsourced (Quinn & Hilmer, 1994).

Alternatively, 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 regard core to be more related to the productive capabilities than governance of capabilities. Jacobides and Hitt (2005) examined how capability differences shape the make-versus-buy decision concluding that, productive capabilities can and do play a major role in the determination of vertical scope. The focus of their study was stated more to the comparative advantage than competitive advantage of the firm.

2.5.1.4 Strategic outsourcing

According to Greaver (1999), outsourcing initiative becomes strategic when it goes along with the organization's long-term strategies. While tactical outsourcing is more featured with a problem-solving mentality, strategic outsourcing takes it to a higher level. Strategic outsourcing takes account of the whole performance and structure of the organization by asking questions about outsourcing's relevance to the organization and

its vision of its future, current and future core competencies, current and future costs and current and future competitive advantages (Greaver, 1999).

Early scholars adopting the strategic perspective argued that core activities should stay in-house, whilst non-core activities could be outsourced, in order to preserve core competencies (Prahalad & Hamel, 1990; Quinn & Hilmer, 1994). Therefore, a definition of firm's boundaries and organizational strategy culminates in the make-or-buy-decision. Like, Quinn and Hilmer (1994), who claimed 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 example activities that do not require specific competencies by the supplier like cleaning or canteen services. In turn, strategic outsourcing happens when companies outsource everything except those special processes and activities which could provide a unique competitive edge 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 (Kakabadse & Kakabadse, 2000).

Strategic outsourcing looks for overall business improvement rather than simply cutting costs. Therefore, a company could attain its strategic goals by focusing on central activities to organizational success. Tactical outsourcing has a short-term focus on minimizing operational costs or maximizing cost-savings. But according to Gilley and Rasheed (2000) outsourcing is never 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.

In their work, Holcomb and Hitt (2007) draw a distinction between strategic outsourcing and strategic purchasing. Strategic purchasing refers to the ongoing 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). 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, therefore, equate with the purchase of goods and services.

2.5.1.5 Levels of outsourcing

Outsourcing can occur in different activity levels (Greaver, 1999). In the outsourcing spectrum introduced by Fill and Visser (2000), outsourcing is described as different levels of outsourcing. At one extreme, outsourcing is seen in form of hiring temporary labor or machines, and in the other extreme, the complete responsibility of the process is outsourced and the relationships is described as strategic partnering. In the middle are various forms of skills and consultancy providers which according to authors, represents almost everything in-between-outsourcing. Time is also considered through the continuum with short-term market change in the rational end and strategic partnership on the strategic end.

Another way to differentiate outsourcing ventures is introduced by Currie and Willcocks (1998), who distinguished between four types of IT sourcing decision: total outsourcing, multiple-supplier sourcing, joint-venture/strategic sourcing and insourcing. Total

outsourcing represents the most traditional type of outsourcing, where service is contracted out for a single vendor who is then completely responsible of the outsourced service. Multiple-supplier is the second type of the outsourcing and it focuses more on creating competition among suppliers by tendering and creating standardized operations for easier comparison. The third type of outsourcing is joint ventures or strategic alliance. In joint ventures, the service provider and the client company share an ownership of the service or product, and therefore the client company has more influence and control over the service provider. Strategic alliances are very similar with joint ventures, with common goals and targets. The fourth type of the Currie and Willcocks' (1998) list is insourcing and back sourcing which can exist for example when there are inadequate supplier or market conditions.

2.5.2 Prescriptive models of outsourcing

In literature, various models of outsourcing process have been proposed. Outsourcing as a process is usually assessed in a multistage wise. Usually models consist of a three or four phases or steps of the outsourcing process. In first phase company should determine the potential objects of outsourcing. In second phase the transition should be planned and managed. And in final phase, the outsourcing process should be evaluated. According to de Boer et al. (2006) common aspects of outsourcing models are: 1) Definition of a core competence/strategy 2) assessment of internal costs, and 3) analysis of suppliers and competitors.

In another perspective, Zeng (2003) depicts the outsourcing process as five stage process model (Figure 3). First stage is investigation and tendering, where organization should

identify the non-core and core activities and analyze the possible scope of the outsourcing as well the risks and benefits in it. Second stage is the evaluation where specific supplier selection criteria are developed to identify the list of appropriate suppliers. Also the sourcing strategy is designed and cost models are finalized in this stage. In third stage final suppliers are selected and the negotiation of an agreement is done. Different technical assessments of selected suppliers need to be identified due to the possible adaptations and furthermore cost savings. Also the process implementation schedule and timelines are fixed in this stage. Fourth stage is implementation, where a performance analysis should be put in place and finally, in fifth stage, the supplier's performance is monitored and possibilities for continuous improvements evaluated.

Making the right outsourcing decision requires a distinct understanding of the potential engagement options, risks and benefits, and the expedient of each conceivable arrangement for meeting business objectives (Sanders et al. 2007). In some cases, the outsourcing mission has been fazed from the strategic viewpoint, highlighting the importance of contract and process management and emphasizing the risks and advantages of outsourcing decision (Lonsdale, 1999). Among the five stages of the outsourcing process presented by Zeng (2003), the first three stages, which contains the decision making in outsourcing process, represents big challenges.

2.5.3 Outsourcing process elements

In their findings, Saxena and Bharadwaj (2009), adopt a perspective, where business processes are the actual building blocks of corporative strategy. According to them, from the previous dominating thinking of company's core competence as the leading factor of

outsourcing decisions, outsourcing the whole processes is evolving more toward a strategic organizing and improving the value chain. They even go further to announce that the scope of the outsourcing is moving from question of whether to outsource towards a question of how to outsource every process in the value chain. This can be done only when for every process outsourced it is possible to find a capable service provider.

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In another work, Holcomb and Hitt (2007), explain the existence of strategic outsourcing through a model which is based on extending transaction cost theory (TCT) and resource-based view (RBV). They describe strategic outsourcing as the organizing arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm's value chain. It means, that strategic outsourcing enhances the company's whole portfolio of capabilities and value creation potential, and not only allows firm to reduce costs. In other words, an addition to cost savings, by outsourcing companies rely on intermediate markets to achieve more specialized capabilities that intermediate markets can offer.

In their model, transaction-based view depicts the basic assumptions of efficiency which transaction cost theory classically drives the reasoning of strategic outsourcing. In this view, transaction costs evolve through difficulties that emerge from market-based exchanges. Costs like that contain negotiating, contracting, monitoring and enforcement costs. Transaction cost theory implies that all firms with similar exchange conditions will end up with the same decisions about strategic outsourcing, but according to resource-

based view, resource heterogeneity leads to otherwise similar firms displaying significant different ways, by the use of different capabilities. To fill up the incompleteness of transaction cost theory, they combine it with resource-based view to explain the resource heterogeneity between companies. For example, in their model, capability complementarity refers to the situation in which specialized capabilities enhance the value creation potential of company's own capability endowments. However, these kinds of special complementarities can be hard to find from intermediate markets, and sometimes strategic outsourcing can provide access to them.

Handley & Benton (2009) lists three critical elements of outsourcing process; Strategic evaluation, contractual completeness and relationship management. According to them, strategic evaluation of an outsourcing decision is simultaneously reflected by firm's evaluation from a capability perspective and from a risk perspective, which supports the combination of resource-based view and transaction cost theory above (Holcomb & Hitt, 2007). Capability evaluation contains the evaluation of the strategic value of the capabilities and resources associated with the business activity to be outsourced. Strategic risk assessment, in the other hand, represents the degree to which the company evaluates the multitude of strategic risk associated with outsourcing. In their study, they found evidences that extensive strategic evaluation plays a significant role in determining the success of outsourcing initiatives and performance. However, the effect of strategic evaluation was characterized as indirect rather than direct.

2.5.4 Scope of outsourcing

Similar concept with the level of outsourcing is the scope of the outsourcing. The scope is the level and breadth of the function assigned to an outside provider. After all, the outsourcing governance including contract management and relationship management is predominantly determined through the decision of the scope of the outsourcing.

Scope of the outsourcing can vary greatly. Outsourcing can refer to simpler contracts like hiring contractors for a building site or large and complex like outsourcing whole IT operations of a multinational company. For instance, Lacity and Willcocks (1998) suggest that when choosing between total outsourcing and total insourcing, the selective outsourcing seems to better achieve expected costs reduction targets. Weimer and Seuring (2008) take a wider look into the scope of outsourcing in their study in respect of information needs in the outsourcing lifecycle. In their research they recognized six steps on how to define the scope of an outsourcing project, from the selection of an outsourcing-type to the decision on how the outsourcing performance is done.

The initial scope of the outsourcing regards the overall type of the outsourcing performance. As listed before, in literature there are three evident types of outsourcing: business process outsourcing, manufacturing outsourcing and the information technology outsourcing. However, the recent trends in outsourcing have been toward more complex services that are more near to the central management function (Lacity et al. 2008). The functional scope is the extent of functions involved in the outsourcing, for example whether the outsourcing concerns just an individual task or a whole process. The organizational scope of outsourcing concerns the different organizational units and departments that are involved in the outsourcing process. The geographical scope pays

attention to national limits of the outsourcing performance. Service procurement from abroad has been the developing phenomenon from the early 90's.

This phenomenon, which is also called offshoring or an offshore outsourcing, has been focusing especially outsourcing to countries with low-cost-labor, such as India or China. Today's outsourcing projects typically involve offshoring, which creates additional complexity for the outsourcing performance (Kakadabse & Kakadabse, 2000).

A slightly more practical insight is described by Sanders et al. (2007). In their study of outsourcing arrangements, Sanders et al (2007) identified four broad categories of outsourcing engagements that differ in terms of scope: Out-tasking, co-managed services, managed services and full outsourcing. Out-tasking is the simplest form of outsourcing where the responsibility for the performance of a specific task (not a whole function) is assigned to an outside supplier. Co-managed services then involve a larger scope of tasks or function but keeping the control still in the client company. In managed services the responsibility assigned to supplier is often larger in scope, and the supplier is usually responsible of all aspects of function: equipment, facilities, staffing, software etc. Here, the outsourcing company typically takes part to design, implement and management in some level. Final stage is full outsourcing, which assigns the total responsibility of the function to the supplier.

Scope and criticality of the outsourced service are usually interrelated concepts. The criticality of the outsourced task or function corresponds with the scope of the outsourcing function. The scope and the criticality together present the two key categorical dimensions which differentiate the outsourcing engagements (Sanders et al.

2007), and eventually, design the outsourcing governance. For example, out-tasking represents the simplest form of outsourcing and therefore it often involves assigning to the supplier responsibility of more tactical task of function rather than a strategic function (Sanders et al. 2007). In consequence, more strategic and critical functions are usually fully outsourced, which represent the other end of the scope spectrum. However, some exceptions do exist in the relationship between scope and criticality. Based on previous literature in respect of outsourcing ventures, organizations use total outsourcing to functions that are not regarded highly critical or strategically important (Lonsdale, 1999). However, usually these functions are very extensive within their function scope (Sanders et al. 2007).

2.5.5 Contract management

Lack of proper contract management has been identified as a significant risk factor that can lead to increased cost of services and inability to meet cost reduction targets (Yao et al. 2010). Transaction cost theory implies that the contracts between client and vendor are always incomplete, due to the existence of bounded rationality (Greenberg et al. 2008). Bounded rationality refers to the visibility of the outsourcing relationship in the matter that all contingencies concerning the transactional relationship cannot be foreseen and that is causing failures to the relationships.

Slightly more recent study proves differently. Yao et al (2010) investigated differences between three commonly used types of outsourcing contracts: fixed-price, cost-plus and gain-sharing contracts. Fixed-price contract covers all the costs and fees for predetermined services. By using fixed-price contract the outsourcing company can avoid

vendor's overcharges, however, it may diverge significantly from the market price during the contract duration. Cost-plus contract model is more tailored to a certain service delivery. The cost-plus contract requires usually vendor service levels and performance metrics, penalties for non-performance, pricing mechanisms and others client specify requirements. However, it is sometimes very difficult to define client's clear requirements, and these additional and undocumented needs can raise service provider's operational costs to another level. As a result, there is a big risk for unexpected increase of outsourcing expenses. Third commonly used contract model is a "gain-sharing" contract model, where costs savings and cost overflows are shared with both parties. This type of contract can be used for protecting outsourcing firms from financial and technological risks, however, it is not that commonly implemented mainly because of the difficulties of assessing the mutually shared costs.

Handley and Benton (2009) proved that strategic evaluation has a significant positive effect on contractual completeness. According them, contractual completeness is the extent to which the partners of outsourcing agreement develop a contract which effectively coordinates resources and addresses identified organizational risk.

The main purpose of contractual completeness is to make the outcomes of outsourcing performance more predictable. A more detailed and extensive strategic evaluation can provide to the outsourcing firm more detailed insights on the strategic implications associated with outsourcing, These insights from strategic evaluation, can then be used to develop a more effective contract to address the identified control and coordination requirements of the outsourcing performance.

2.5.6 Relationship management

According to Hätönen and Erikkson's (2009) research review, cooperation, collaboration and co-development have become key issues in managing outsourcing relations which all are enabling decomposition of knowledge-intensive and creative-in-nature activities. Hence, the future competitive edge is seen to lie in flexibility that can be achieved through tight operational focus and leveraging external core competencies outside of this area. Partnership arrangements vary considerably in their operations, from flexibly defined formal contracts, to more strategic initiatives (Quinn, 1999).

Sometimes outsourcing can lead to conflict of interests between the outsourcer and outsourced, for example, in a situation where a supplier has to act contrary to their other interests (Logan, 2000). Disconnected goals can prevent cooperation and make it difficult to leverage specialized capabilities through strategic outsourcing and lead to early termination of these relationships. Nonetheless, collaboration and mutual investments in capabilities can prevent opportunistic behavior and risks of high transaction costs. For example, Holcomb and Hitt (2007) suggest that a cooperative experience with specialized firms increases information symmetry and reduces opportunistic behavior, and therefore enhances the potential benefits of strategic outsourcing. According to Hanley and Benton (2009) strategic evaluation has significant positive effect on relationship management. According to them, by creating the relationship as a partnership with tightly integrated incentives and goals can diminish inherent strategic risks of outsourcing, such as shirking and opportunism. They divide relationship management to two facets, relationship commitment and cooperation, even though they address that commitment and cooperation act in a complementary manner.

2.6 CHALLENGES OF OUTSOURCING

In today's business world of "becoming and remaining competitive in all business processes" Outsourcing is only one possible solution to the problem and a strategy practiced by many management teams. Outsourcing cannot be considered in isolation. It has to be seen together with other management techniques developed to improve performance such as value engineering, change management, best practice, business process re-engineering and total quality management, to name a few. These management techniques can also be referred to as the internal solutions. Of paramount importance is the re-evaluation by organizations of their Core Competencies, Core and Non-Core Business functions. These are dynamic and change over time; they are affected by in-house developments and far-reaching external pressures, markets, availability of manpower and skills, economic and political pressures, etc. (Heili, 2004)

According to Heywood (2001), when the decision to outsource has been made, it is essential that an organization analyses the potential drivers of this decision and identifies the aim and objectives to be achieved. The What, the Why, the When, the How and the Who questions need to be fleshed out in detail and reviewed persistently to ensure that the answers link successfully back with the aim and objectives set. Detailed examination of the sources for value enhancement from outsourcing is of more than academic interest. By understanding where the value will come from, companies can make better decisions about whether outsourcing is a necessary or even appropriate way forward, and if it is, what sort of supplier would be best able to generate the value (Heywood, 2001).

A jointly negotiated and comprehensive contract between the organization and service provider is critical to the start and development of the relationship. It is vital to ensure

that a future service in the short- and long-term poses minimum risk to the organization at a reasonable cost.

2.7 MERITS AND DEMERITS OF OUTSOURCING

Potential advantages of outsourcing, as described by The Deloitte & Touché Consulting Group are as follows:

Financial benefits includes: Cost savings through economics of scale, Cash-flow relief, and predictable costs either through fixed or usage based price agreements. Also, Costs are known as an invoice is paid and includes all costs, avoiding the traps of appropriate or non-existent internal cost allocation and finally, rebates or liquidating damages for non-performance of agreed service levels.

Flexibility merits achieved involve: Catalyst for organizational change – behavior, restructuring, rationalization, and also, a shifting of expenditure from the capital to the operating budget, which is usually less rigid. Additional removal of inflexible work practice mandated by legislation and unions and unrestricted access to leading edge, specialized skills. Another benefit is shorter lead time to take advantage of new technology and ideas. Economic of scope benefits too can be obtained (the variety of services able to be produced). And significantly, Access to technology without capital investment (Deloitte & Touché, June 2000).

Heili (2004) in agreement with Fill and Visser (2000), further claim efficiency and effectiveness primarily are achieved through the following: Predetermined service levels where parties are forced to define and/or agree to what is expected. Another benefit is with pay for performance which means service providers are more responsive to

performance complaints as it affects profitability. It also offers a centralized support with one point of call - the service provider. Predominantly, it enables technology catching up or leapfrogging. It promotes efficiency motivation by converting internal cost center to a service provider profit center. Moreover, there is more frugal use of IT resources – when paying "real" money, users change their behaviour.

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Disadvantages

Deloitte & Touché consulting group (2000), further states that the potential disadvantages of outsourcing could be as discussed as follows:

Fore mostly, unexpected costs for those that are not explicitly in the scope of the agreement. Also, Higher per unit of service costs if usage projections are above or below those agreed upon. Other demerits include cost of additional skills and resources required in managing the relationship and Leakage of confidential information resulting in competitive disadvantage or legal cases, High exit barriers and irreversibility resulting in reduced cost-effective options if arrangement fails. Sometimes, there is service provider's inflexibility to economically meet changing requirements on a timely basis. There is also the possibility of exposure to service provider's financial strength and profit motive. There could be supply restrictions leading into a single supply source. Significant exposure to service provider's lack of commitment whereby they may focus their attention on larger or more strategic customers. And very importantly, there is loss of in house expertise (Deloitte & Touché, June 2000).

The definition of a "failure" is always open to debate. Nevertheless, the research unquestionably raises important concerns about the success of outsourcing.

2.8 MANAGEMENT OF THE CONTRACT

According to Heywood (2001), over the last few years a certain degree of standardization has developed in the way that the outsourcing contract is managed. A management team is established as a Joint Review or Steering Committee consisting of equal representation from both parties and meets on a regular basis during the life of the contract. The overall responsibility of this Team involves:

To ensure that the existing service is sufficient and meets the organization's needs. Also, to provide a forum in which the continual analysis and review of service performance indicators can be undertaken. It is to approve the appointment or dismissal of key staff. Includes, also ratifying and approving any deviations from contractual obligations, and work on improving all aspects of the relationship. Summing it all up, to manage the overall performance of the contract.

In their contribution, Bergquist et al. (1995) states that as a result of globalization, there is gradual erosion of hierarchies and the emergence of more collaborative, partnership-driven structures.

The literature provides several examples of factors that make partnerships successful, such as 90% of partnering skills are hinged on communications and partnerships are not based on selling, but on mutually beneficial customer and supplier activities (Moody, 1993).

The corporate and cultural fit between partnering companies is also important. This is supported by statements such as "It is essential that there is a high degree of fit between each of the seven elements of Mc Kinsey 7S model and that they are aligned in the same

direction in which the industry environment will be moving in the future (Henley Management College, 1999).

Perhaps it is Harry S. Truman who provides the essential element necessary for the successful management of an outsourcing contract, "You can accomplish anything in life, provided that you do not mind who gets the credit".

It is imperative that both parties see their joint effort to succeed as the effort of one team, with one aim, and their collaboration brings together the essential synergies needed.

2.9 GENERAL DEFINITION OF MINING AND MINING INDUSTRY

The mining sector is a highly competitive, highly profitable global business. According to Finnish national minerals strategy (2010), the success of a new mining operation requires both adequate mineable reserves and the availability of an appropriate technology for ore processing. Future mining operations will have to be increasingly based on exploiting deposits with lower mineral concentrations.

A junior mining company is an exploration company that looks for new deposits of gold, silver, nickel or other precious minerals. These companies target properties that are believed to have significant potential for finding large mineral deposits. A senior mine generates revenue from its mining operations whereas junior miner makes profit by capitalizing new deposits. Usually junior mining companies seek and find promising properties, prove the resources, make necessity preparations (legal and financial) and try to sell the deposit to a senior mining company (Hakapää & Lappalainen 2011).

In simple terms, mining is the removal of valuable raw materials or other geological materials from the earth and the removal of soil. According to Heavy Equipment online community (2013), mining techniques can be roughly divided into two common excavation types: open-pit mining and underground mining. Open-pit mining, or surface mining, is performed by removing surface vegetation, dirt and, if necessary, layers of bedrock in order to reach buried ore deposits. The specific type of enrichment and refinement process required may vary considerably from mine to mine. Therefore, a broad range of expertise and adaptability is needed. According to Finnish national minerals strategy (2010), today processing technologies are also increasingly driven by the need to be more energy-efficient and environmentally compliant.

Techniques of open-pit mining include recovery of materials from an open pit in the ground and quarrying or gathering building materials from an open pit mine. Underground mining consists of digging tunnels or shafts into the earth to reach buried ore deposits. Ore, for processing, and waste rock, for disposal, are brought to the surface through the tunnels and shafts (Hakapää & Lappalainen, 2011).

Even though mining is considered as a major primary industry, contemporary mining techniques are highly mechanized. The earthmoving, transportation and extraction are done with massive, specialized equipment and the operation is usually controlled by computers from the beginning to the end. Explosives are used to break up rock into manageable chunks for extraction. Underground mining is more labor intense due to the close absence environment, but can still be highly mechanized (Hakapää and Lappalainen, 2011).

Mining industry differs from other industries in its competitive environment. Because the prices of the products are not exactly given in the markets, the competitive edge lies more in the production efficiency and in the nature of the ore deposit. But accordingly it is not so relevant to compare mines with each other in a competitive way, because the ore deposits are fundamentally unique and linked to the environment in which they operate. This is why it is impossible to compare one mine to another, even though they would operate with the same minerals and with the same methods.

The mine life cycle is usually described using the following steps or phases. These phases and the associated key activities are illustrated in Figure 1.0, and consist of the exploration and feasibility phase, the planning and construction phase, the mine operations phase and the mine closure phase. This figure illustrates the main activities of the mine life cycle. The first phase is exploration and feasibility, where activities include reconnaissance, locating mineral anomalies, discovery, sampling, and economic feasibility decisions. The second phase is planning and construction, where activities include mine planning, environmental/social planning, closure planning, environmental and other permits, clearing, stripping, blasting and infrastructure. The scope and complexity of the works to be completed during this phase vary considerably from project to project. However, some elements are common to all mine construction projects. Undisputable, this phase requires the most of the services procured during mine life, including the biggest amount of staff and contractors. The third phase is operations, where activities include ore crushing, grinding, concentrating, waste rock, tailings and wastewater management, and progressive reclamation. The final phase is closure, where

activities include site clean-up, reclamation, rehabilitation, maintenance, and environmental monitoring.

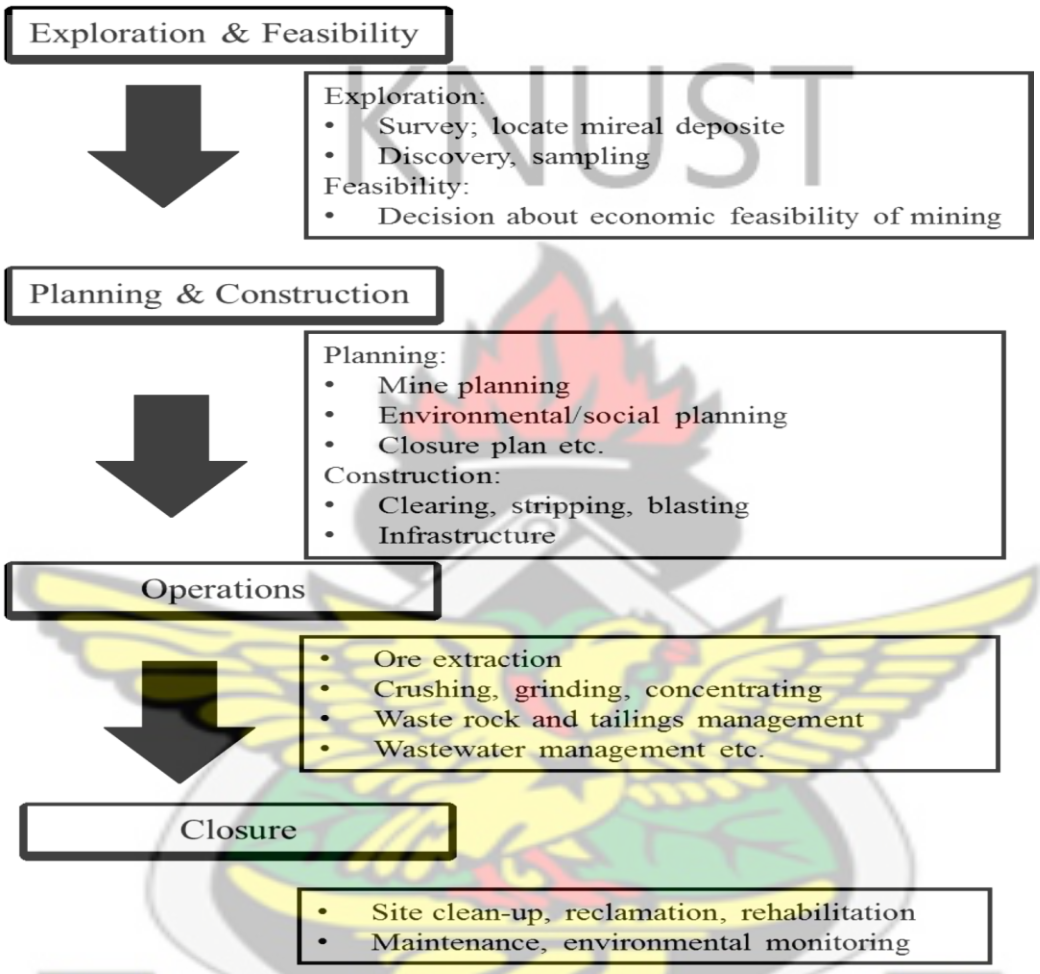


Figure 2.9 The mining life cycle. Adapted from Environmental Code of Practice for Metal Mines

2.9.1 Application of outsourcing in mining industry

In mining and mineral business, the worldwide usage and importance of outsourcing has grown dramatically over the last decades. According to a survey conducted by Fraser Company (2013), the mining companies worldwide will increase their procurement

spending at least 15% during the next 2 years and most of it to outsourcing business services.

The "value chain" in mining sector is made up of numerous actors who all participate in a range of activities to bring a particular product or service from extraction to production and from delivery to the final consumer (Hanlin & Hanlin, 2012). The coordination of these chains is determined by the nature of chain governance. It is suggested that there are perhaps only two "core competencies" required for the mining industry financing and managing, and that all other activities could be outsourced (Stacey et al. 1999). For example, a mining company can outsource their exploration, mine planning, process design, process and reduction plant operations and all the supportive functions and just keep the financing and management internal. It is said that a mine could employ only three people within the mining company: general manager, financial manager and safety manager. Everything else outsourced to the external contractors.

A clear example of an outsourced activity in mining is subcontracting non-core functions, like cleaning, catering and security. Subcontracting has taken place both on the surface and underground mining. In the surface mining, typical non-core functions such as catering, cleaning, security, and maintenance of hostels have been subcontracted. Construction work has also been subcontracted. Traditionally certain specialized underground work has also been subcontracted, for instance, the sinking of shafts and other forms of underground construction (Kenny & Bezuidenhout, 1999). It is obvious that a mining operation does not necessarily have an on-going requirement for conducting these services in-house and therefore cannot justify these services for in-house

production, because of the specialist personnel and equipment required. These kinds of services are clearly distant from the core-business of mining, and can be therefore contracted out to specialist contractors with the experience and expertise to handle such an activity safely and efficiently.

Mine sites are usually located in rural areas and isolated from big cities and economical areas. This can affect the outsourcing decision in several ways. There might be geographic dispersion with the location of service providers, which can cause problems with availability, applicability and flexibility. For example, rapid capacity-related needs can be problematic to fulfill, if there are not enough operators nearby, for example skill-full workforce or additional transportation. However, keeping additional capacity in-house "just in case" cannot be seen as a very cost-effective arrangement (Hanlin & Hanlin, 2012).

Researched work like Kenny and Bezuidenhout (1999) investigation into the changing nature of subcontracting in the South African mining industry and Hanlin & Hanlin's (2012) article produced some interesting results. Their studies investigated the linkages between local suppliers and the mining company in South African gold mine. According to them, several benefits can be assessed through outsourcing in mining industry, such as quality improvements, reduced overhead costs, substitutability of vendors, and continuity (long-term "partnering relationships). In contrast, possible risks of outsourcing in mining industry were regarded to be availability problems, confidentiality issues, unrealistic cost targets and perceived lack of accountability and commitment (supplier opportunistic behavior).

Another work by Baptista (2013) looked into the development of the relationship between customers and suppliers of capital equipment in the mining industry in Portugal. According to her study, the inter-organizational relationships were characterized with three sets of variables: context, task characteristics and interaction process. Understanding the context, within which a buyer and seller operate, allows the identification of issues that are specific to the evolvement of a particular relationship. Furthermore, she found that mine cycle- stage was one of the variables which can describe the context in a more insightful way.

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CHAPTER THREE

RESEARCH METHODOLOGY & ORGANIZATIONAL PROFILE

3.1 INTRODUCTION

The purpose of this chapter is to discuss how this research was done. The methodology and the structure of this research were shortly submitted in the first chapter, but this chapter presents the methodology of the research in more detail and thereafter describes the empirical part of the study. Finally, at the end of this chapter the profile of the case company AngloGold Ashanti Obuasi mine is introduced.

3.2 RESEARCH PARADIGMS

The research philosophy you adopt contains important assumptions about the way in which you view the world. These assumptions will underpin your research strategy and the methods you choose as part of that strategy. It is frequently advocated that the positivist researcher will be likely to use a highly structured methodology in order to facilitate replication (Gill & Johnson, 2002). Further, the emphasis will be on quantifiable observations that lend themselves to statistical analysis.

Interpretivism advocates that it is necessary for the researcher to understand differences between humans in our role as social actors. This emphasizes the difference between conducting research among people rather than objects such as trucks and computers. We interpret our everyday social roles in accordance with the meaning we give to these roles. In addition, we interpret the social roles of others in accordance with our own set of

meanings. This strand of Interpretivism comes from two intellectual traditions: phenomenology and symbolic interactionism (Saunders et al. 2009).

Phenomenology refers to the way in which we as humans make sense of the world around us. In symbolic interactionism we are in a continual process of interpreting the social world around us in that we interpret the actions of others with whom we interact and this interpretation leads to adjustment of our own meanings and actions. The researcher has to adopt an empathetic stance. Some would argue that an interpretivist perspective is highly appropriate in the case of business and management research. But, not only are business situations complex, they are also unique. They are a function of a particular set of circumstances and individuals coming together at a specific time (Saunders et al. 2009).

This work uses both qualitative and quantitative techniques to collect data. The research is approached from primarily an interpretivist perspective in that there are multiple realities to be understood and they all impact the overall success or failure of the Programme. Identifying and understanding the relationships between multiple realities of outsourcing implementation will reveal the underlying patterns with regard to this phenomenon. The patterns and order themselves provide insight into more successful or unsuccessful implementation techniques and considerations. Qualitative methods are used in the form of case studies to create an in-depth, rich account (Yin, 2003).

3.3 RESEARCH DESIGN

The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. According to Yin (2003),

research design deals with a logical problem not a logistical problem.it refers to the structure of the enquiry.

Purpose for conducting any research could be classified into; exploratory research, descriptive studies and or explanatory studies. An exploratory research design is a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light (Robson, 2002). It is particularly useful if you wish to clarify your understanding of a problem, such as if you are unsure of the precise nature of the problem. In sum, exploratory studies are important for obtaining a good grasp of the phenomena of interest and advancing knowledge through subsequent theory building and hypothesis testing. Exploratory study will offer the needed preliminary information for a full-fledged study on the matter, later.

The object of descriptive research is to portray an accurate profile of persons, events or situations (Robson, 2002). This may be an extension of, or a forerunner to, a piece of exploratory research or, more often, a piece of explanatory research. It is necessary to have a clear picture of the phenomena on which you wish to collect data prior to the collection of the data. The goal of a descriptive study, hence, is to offer to the researcher a profile or to describe relevant aspects of the phenomena of interest from an individual, organizational, industry-oriented, or other perspective. In many cases, such information may be vital before even considering certain corrective steps, as for example: Should the organization consider changing its practices?

Studies that establish causal relationships between variables may be termed explanatory research. The emphasis here is on studying a situation or a problem in order to explain the relationships between variables (Kothari, 2004). Mixed methods are possible, and possibly highly appropriate, within one study. Tashakkori & Teddlie (1998) suggest that it is more appropriate for the researcher in a particular study to think of the philosophy adopted as a continuum rather than opposite positions. They note that at some points the knower and the known must be interactive, while at others, one may more easily stand apart from what one is studying (Tashakkori & Teddlie, 1998). Mixed method research represents more of an approach to examining a research problem than a methodology; it is characterized by a focus on research problems that require an examination of real life contextual understandings, multilevel perspectives and cultural influences. It has an objective of drawing on the quantitative and qualitative data gathering techniques to formulate a holistic interpretive framework for generating possible solutions or new understandings of the problem. That will lead to greater confidence being placed in your conclusions (Tashakkori and Creswell 2007).

This research pursues both an exploratory and descriptive nature thereby employing the mixed method research approach (Robson 2002). This research is conducted as a single case-study. A case study is used in a research method when the aim of the research is to understand complex phenomena. Yin (2003) defines case study as follow, "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2003, p.13). The purpose of the case study is describing the real world

phenomena, rather than developing normative decision models. Therefore, the research problems addressed are more descriptive than prescriptive. Case study is also a commonly used mechanism in qualitative researches, because it provides a possibility to describe the reality from the participants' points of view. Case study can also be justified with an extreme and unique research case (Uusitalo, 1991).

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3.4 SAMPLING PROCEDURES

This unit will discuss the following: the empirical and theoretical definitions of the population and sample for the research and the sampling technique used.

3.4.1 The population and sample

The research population refers to the population to be studied/ to which the investigator wants to generalize his results. According to Sekaran (2003), Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. For instance, if the CEO of a computer firm wants to know the kinds of advertising strategies adopted by computer firms in the Silicon Valley, then all computer firms situated there will be the population. If regulators want to know how patients in nursing homes run by Beverly Enterprises are cared for, then all the patients in all the nursing homes run by them will form the population. If, however, the regulators are interested only in one particular nursing home in Michigan run by Beverly Enterprises, then only the patients in that specific nursing home will form the population. It is a set which includes all measurements of interest to the researcher (The collection of all responses, measurements, or counts that are of interest).

A sample is a subset of the population. It comprises some members selected from it. In other words, some, but not all, elements of the population would form the sample. If there

are 145 in-patients in a hospital and 40 of them are to be surveyed by the hospital administrator to assess their level of satisfaction with the treatment received, then these 40 members will be the sample. A sample is thus a subgroup or subset of the population. By studying the sample, the researcher should be able to draw conclusions that would be generalizable to the population of interest (Sekaran, 2003).

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However, it needs to be emphasized that when the population is a small one, it is no use resorting to a sample use which is used when a population is too large or when constraints make it impossible to use an entire population (Kothari. 2004).

Employees and management of the procurement division of AngloGold Ashanti, Obuasi mine were the targeted population. The division is made up of suppliers and contracts departments. Supplies department consists of materials planning, stores, purchasing and materials engineering. The contract department is also made up of the key suppliers and contract staff. Since the target population in question is small, I will use the entire population eliminating the need for a sample. Since the mine is currently undergoing restructuring, the staff strength of the department has been reduced from thirty-five (35) to twenty-five (25).

3.4.2 The sampling technique

Sampling is the *process* of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalize such properties or characteristics to the population elements. (Sekaran, 2003).The characteristics of the population such as μ (the

population mean), σ (the population standard deviation), and σ2 (the population variance) are referred to as its *parameters.*

Though in view of our concern about generalizability we may be particular about choosing representative samples for most research, some cases may not call for such concern for generalizability. For instance, at the exploratory stages of fact finding, we may be interested only in getting a handle on the situation, and therefore limit the interview to only the most conveniently available people. The same is true when time is of the essence, and urgency in getting information overrides in priority a high level of accuracy. In such situations purposive sampling is usually used.

Purposive sampling plans fall into two categories: judgment and quota sampling designs. Judgment sampling, though restricted in generalizability, may sometimes be the best sampling design choice, especially when there is a limited population that can supply the information needed (Sekaran 2003).

Because actually the target population was quite small it was impracticable to sample and therefore all of them were used, a simple purposive sampling technique was used in selecting the respondents for data collection.

3.5 DATA COLLECTION METHODS

Data is any information collected to aid in achieving research objectives (Saunders, 2009). Owing to the exploratory and descriptive nature of this research (Robson, 2002), data collection, organization and analysis is guided primarily by a grounded theory, or

inductive perspective, whereby the collection, examination and process of continual re-examination of data determine the research findings.

Quantitative and qualitative data collection techniques and analysis procedures each have their own strengths and weaknesses. There is inevitably a relationship between the data collection technique chosen and the results obtained. In short, your results will be affected by the techniques and procedures used.

The fieldwork consists of a qualitative and quantitative component. The qualitative component consisted of semi-structured interviews and the quantitative was by questionnaire.

In total, 25 questionnaires and 2 interviews were conducted; Notes were taken, and were compiled after the interview. All interviews were conducted in the interviewee offices. Interviews were conducted mostly at the convenience of the respondents to reduce bias from stress.

Questionnaires were administered personally to ensure that the right persons were solicited for the research.

3.5.1 Sources of data

Depending on the source of the data, data can also be described as; primary or secondary. Primary data are data collected specifically for the research study being undertaken. This type of data is usually collected directly from the individual or group providing the information. Data collection is done using observations, interviews, and questionnaires (Saunders, 2009).

Secondary Data are data that have already been collected for some other purpose, perhaps processed and subsequently stored. It also includes published information available from other sources that has already been gathered and that is relevant to the research problem at hand. Thus types and sources of secondary data include documentary, survey and multiple sources.

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Both Primary and Secondary data were sourced and utilized for the purpose of addressing the research objective. As described by Kothari (2004), the former is the data collected afresh and for the first time hence original in character while the latter is data that is already collected by someone else and already passed through statistical process. Primary source of data in this research was from the administered questionnaires and interviews. Secondary data was from company reports, brochures, website and other company documents.

3.5.2 Data collection tools

Data was collected through direct visitation, use of semi-structured interviews and questionnaires. Secondary data was collected from the company's record on the value of total inputs that were outsourced by the company. This covered the period from 2000 to 2010

To examine the relationships mentioned earlier, the questionnaire of this study was developed to assess the dimension of organizational factors, strategic outsourcing capability, outsourcing success, business functions, outsourcing process. The questionnaire consists of five parts. Part one asks for background and specifics of Outsourcing Relationships. Part two asks for factors influencing outsourcing decisions.

Part three related to factors influencing outsourcing process. In part four, questions about the business functions outsourcing is asked (i.e. operational effectiveness and firm performance). In part five, the success of outsourcing practices is evaluated.

The empirical material was collected by using semi-structured theme interviews. Theme-interviews enable to capture the interpretations of meanings of the participants (Koskinen et al. 2005). It also permits versatility, flexibility and richness for the interview situation, which suits well for the style of the qualitative method. Since qualitative research does not aim at generalizing the results statistically (Koskinen et al. 2005), consequently the main concern is not in the amount of interviews. In these cases the focus is in the quality and richness of the content they can provide.

In his submission, Yin (2003) notes that key informants are often critical to the success of the case study, the participant's role is considered to be more "informant" than just a "respondent". So a lot of attention should be given to the selection of interviewees. Selecting the interviewees was guided by the nature of previous research streams in the outsourcing literature which contains both, strategic and operational approach towards outsourcing. Therefore, the top level manager and middle managers of the case company were selected as interviewees. They represent the decision makers in both, strategic and operational level of the company, and are likely to have a sufficient overall picture of the firm's outsourcing activities.

Interviews were conducted at mines, mostly at their offices. The interviews were conducted face-to-face in June 2015. First, the manager was interviewed to give advices and guidelines for the forthcoming interviews of the other staff. Each interview and case

was first handled as an individual study. All interviews were recorded. During the interviews, the researcher took notes and carefully inspected that all themes were covered within the conversation. After the interviews, each of them was carefully transcribed according to the recording. Each interview and case was first handled as an individual study and analyzed by using chosen theoretical guidelines.

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3.6 DATA ANALYSIS

The quantitative data collected from both primary and secondary sources have been presented in tables to show a numeric view about the study. Data were coded and analyzed by the use of Statistical Package for the Social Sciences (SPSS) and Microsoft excel. The data went through processes of; Editing, Summarizing responses (coding), Data entry (if any) and Error checking (cleaning).

In analyzing the qualitative data, it is noted that one of the features of theme interviews is open questions, where answer alternatives are not created beforehand. Therefore, most questions were open-ended to encourage and to help the interviewees to share their knowledge. The interview situation develops through the requirements of the situation, and cannot be preliminary planned. Each interview and case was first handled as an individual study and analyzed by using chosen theoretical guidelines. After the individual cases' analysis the data and cases were combined. The joint analysis involved an on-going evaluation between the theory and data, to find similarities and differences from the tentative theoretical frame and the empirical data. The data went through e processes of summarizing, categorizing and structuring. Together these processes and aids allowed me to interact with my qualitative data in order to: comprehend them; integrate related data drawn from different transcripts and notes; identify key themes or patterns from

them for further exploration; develop and/or test theories based on these apparent patterns or relationships; draw and verify conclusions.

3.7 QUALITY OF THE RESEARCH

Some stringent measures were put in place to ensure quality of the research. According to Saunders et al. (2009) this ensures that results generated from research works can be relied upon and significant references gained from them. For this research, the main steps undertaken were: The purpose of the research was clearly defined and common concepts used. Also, the research procedure used is described in sufficient detail to permit another researcher to repeat the research for further advancement, keeping the continuity of what has already been attained (Saunders et al. 2009). Moreover, the procedural design of the research was carefully planned to yield results that are as objective as possible. In addition, the research is reported with complete frankness, flaws in procedural design and estimates their effects upon the findings as postulated by Kothari (2004). The analysis of data is sufficiently adequate to reveal its significance and the methods of analysis used are appropriate. Repeatedly, the validity and reliability of the data was checked carefully which view is strongly supported by Saunders et al. (2009). Finally, conclusions are confined to those justified by the data of the research and limited to those for which the data provide an adequate basis.

Thus the research shares qualities of being systematic, logical, empirical and replicable as espoused by Saunders et al. (2009).

3.8 RESEARCH ETHICS AND LIMITATIONS

Ethics refers to the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or are affected by it. Cooper and Schindler (2008) define ethics as the norms or standards of behaviour that guide moral choices about our behaviour and our relationships with others.

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Research ethics therefore related to questions about how I formulated and clarified the research topic, designed the research and gained access, collected data, processed and stored the data, analyzed data and wrote up the research findings in a moral and responsible way. The general ethical issue here is that the research design did not subject those I was researching (the research population) to embarrassment, harm or any other material disadvantage privacy of possible and actual participants;

• Voluntary nature of participation and the right to withdraw partially or completely from the process;

• Consent and possible deception of participants;

• Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity;

• Reactions of participants to the way in which you seek to collect data, including embarrassment, stress, discomfort, pain and harm;

This research is faced with some limitations primarily it's been a case study and again its exploratory and descriptive nature. This is due to the fact that experiments are the only way to show causation but often take a back seat to descriptive studies due to time, cost, and control issues. Thus the only way to prove the findings will be to perform further

explanatory studies. Also, exploratory and descriptive studies are useful, but one cannot infer too much.

Important limitations of the case study method which may as well be highlighted according to Saunders et al. (2009) include:

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Case situations are seldom comparable and as such the information gathered in case studies is often not comparable. Since the subject under case study tells history in his own words, logical concepts and units of scientific classification have to be read into it or out of it by the investigator. Also, the danger of false generalization is always there in view of the fact that no set rules are followed in collection of the information and only few units are studied. And again, it consumes more time and requires lot of expenditure. More time is needed under case study method since one study the natural history cycles of social units and that too minutely. Moreover, the case data are often vitiated because the subject may write what he thinks the investigator wants; and the greater the rapport, the more subjective the whole process is. Significantly, case study method is based on several assumptions which may not be very realistic at times, and as such the usefulness of case data is always subject to doubt.

Case study method also can be used only in a limited sphere; it is not possible to use it in case of a big society. Sampling is also not possible under a case study method. Last but not least, response of the investigator is an important limitation of the case study method. He often thinks that he has full knowledge of the unit and can answer about it. In case the same is not true, then consequences follow. In fact, this is more the fault of the researcher rather than that of the case method.

3.9 ORGANIZATIONAL PROFILE OF CASE COMPANY

AngloGold Ashanti is a multinational company and a leading global producer of gold. The headquarters of the company is in Johannesburg in South Africa, and it has affiliates in Tanzania, Brazil, Australia, Argentina, Colombia, Guinea, Mali, Namibia, United States of America and Ghana. It is involved in metals and mining different kinds of mineral resources all over the world (AngloGold Ashanti, 2007). The combined Proved and Probable Ore Reserves of the group amounted to 79 million ounces, as at 31 December 2004.

AngloGold Ashanti was formed through the business combination between AngloGold Limited and Ashanti Goldfields Limited – effective 26 April 2004 – forming Africa's foremost gold producer, and one of the world's leading resources companies. AngloGold Ashanti is listed on the following securities exchanges: Johannesburg (ANG), New York (AU), Australia (AGG) and Ghana (AGA and AADS), as well as the London Stock Exchange (AGG), Euronext Paris (VA) and Euronext Brussels (ANG). The group employs 65,400 people, including both permanent employees and contractors.

In Ghana, it is the mining company that handles the country's largest mining site. AngloGold Ashanti has two operations in Ghana; the first operation is in Obuasi in the Ashanti region and the second in Iduapriem in the Western region of Ghana (AngloGold Ashanti, 2007).

The Obuasi site is the largest gold mining site of Ghana and it is located in the Adansi Municipal of the Ashanti region of Ghana. Formerly, the Obuasi operations were assets of a Ghanaian based company, Ashanti Goldfields, but ownership was transferred to

AngloGold Ashanti in 2004 and the started operations in that same year (AngloGold Ashanti, 2007).

The company is structured into six main divisions; mining, processing, human resource management, engineering, mining resources management and sustainable development divisions. Each of these divisions is headed by a general manager. The divisions are further divided into departments which are also headed by managers. Under the departments, there are various sections, headed by superintendents.

AngloGold Ashanti's mission:

Our business is gold. We consistently strive to create value for everyone with a stake in our company, by finding and mining gold and by developing the market for our product.

Our values

• AngloGold Ashanti consistently strives to generate competitive shareholder returns. We do this by replacing profitable gold reserves and by continuously improving the performance of our key resources – our people, our assets and our product. We conduct ourselves with honesty and integrity.

• We provide our employees with opportunities to develop their skills while sharing risks and rewards in workplaces that promote innovation, teamwork and freedom with accountability. We embrace cultural diversity.

• Every manager and employee takes responsibility for health and safety; and together strives to create workplaces that are free of occupational injury and illness.

• We strive to form partnerships with host communities, sharing their environments, traditions and values. We want communities to be better off for AngloGold Ashanti having been there. We are committed to working in an environmentally friendly way.

Our business principles

We live our values through our business principles. These principles are applicable across AngloGold Ashanti and in all the countries in which we do business. They inform the way in which we go about achieving our mission, balancing key economic, social, environmental and ethical values. These business principles which will evolve over time as we interact with our stakeholders, both internal and external, are:

- Ethics and governance
- As an employer – safety and health
- As an employer – our labour practices
- The community
- The environment

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CHAPTER FOUR

RESEARCH FINDINGS/RESULTS & DISCUSSIONS

4.1 INTRODUCTION

In this chapter results of the research are presented and discussed. Results cover factors influencing outsourcing decisions at AngloGold Ashanti Obuasi mine, the outsourcing process employed at AngloGold Ashanti Obuasi mine, business functions being outsourced at AngloGold Ashanti Obuasi mine and the success of outsourcing practices at AngloGold Ashanti Obuasi mine.

4.2 FACTORS INFLUENCING OUTSOURCING DECISIONS AT ANGLOGOLD ASHANTI OBUASI MINE.

4.2.1 Distribution of respondents by status in organization

The table below shows the percentage distribution of respondents according to their status in the organization.

Table 4.1

STATUS IN ORGANIZATION	FREQ.	PERCENT (%)
Management staff	2	8
Senior staff	23	92
Junior staff	0	0
Other	0	0
TOTAL	25	100

Source: Author's Field data, 2015

For the purpose of the work, staff of the company in supervisory and managerial positions especially in the contracts and procurement departments was targeted. Out of the total 25 questionnaires administered, 23 of them representing 92% of the total number of respondents were senior staffs and just 2 of them representing the remaining 8% were managers. This is due to the fact that the current structure of the company limits few managerial positions and the whole departments of procurement, supply chain, finance, suppliers and contracts have being merged into one big department headed by one senior manager and assisted by 2 managers and then various superintendents. This ensures less bureaucracy and easier access to information.

4.2.2 Distribution of respondents by length of time spent working in organization

The table below shows the percentage distribution of respondents according to their length of time spent working in the organization.

Table 4.2

LENGTH OF TIME SPENT WITH COMPANY	FREQ.	PERCENT (%)
More than 10 years	1	4
5 to 10 years	2	8
2 to 5 years	14	56
1 year and less	8	32
TOTAL	25	100

Source: Author's Field data, 2015

A large number (14) of the respondents possess working experience in the organization from 2 to 5 years representing 56%. 8 of them representing 32% have a year or less working experience at the company. 2 of them representing 8% have spent 5 to 10 years and just 1 representing 4% have more than 10years working experience at the company. In reality this is so because of the restructuring programme that was recently done at the company releasing many with long working experience to keep few young hands at the organization. This is due to the fact that the company wants to cut on excess human labour and employ fewer more technical based staff to handle the work. This also can be argued to be core reason for future outsourcing programmes as surely if workload increases, the company will be more comfortable to outsource than to employ newer staff.

4.2.3 Factors that promote the decision to outsource

Table 4.3 below summarizes the factors that promote the decision to outsource business functions at AngloGold Ashanti Obuasi mine.

Table 4.3: Degree of consensus of respondents on factors that promotes decision to outsource

FACTORS	DEG. CONSENSUS	N
Reduce and control operating costs	4.1	25
Improve company focus	4.1	25
Improved quality	4.4	25
Free up internal resources	4.0	25

Obtain resources not available internally	3.6	25
Gain access to world-class capabilities	3.7	25
Deal with a function that is difficult	3.7	25
To release capital funds	2.9	25
Gain access to world-class technology	3.5	25
Obtain a cash infusion/flow improvement	2.5	25
Shared risk	2.8	25
Accelerate re-engineering benefits	2.6	25

Source: Author's Field data, 2015 ***Rate with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]***

The key 3 reasons identified by respondents for being the factors that promotes outsourcing are improved quality (consensus of 4.4), reduce and control operating cost (consensus of 4.1) and improve company focus (consensus of 4.1). This means that generally, staff believes that the company embarks on outsourcing mainly to increase the quality of the company's overall activities. Thus it is more strategic in its approach. Supporting this view is the fact that respondents agreed that improving company focus is also key together with the tactical approach of reducing and controlling operational costs. According to Porter (1985), there are three generic strategies that enable organizations to identify the various competitive options open to them namely, cost leadership, differentiation and focus. The minerals industry in general, because it is a commodity based industry, has little other option than to adopt a cost leadership strategy. Respondents however believe that obtaining a cash flow/ flow improvement is not a major reason for outsourcing (consensus of 2.5) also accelerating re-engineering benefits

(consensus of 2.6). However it is also of note that respondents don't count it important that the company embarks on outsourcing to share risks (consensus of 2.8) or to release capital funds (consensus of 2.9). This implies staff generally believes the company does not suffer from financial problems and doesn't have much to fear in its approach on issues financially.

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4.2.4 Identification of business functions considered as 'core businesses.

Table 4.4 below summarizes the business functions that respondents consider as 'core businesses at AngloGold Ashanti Obuasi mine.

Table 4.4: Degree of consensus of respondents on functions rated as 'core business'

BUSINESS FUNCTIONS RATED AS 'CORE BUSINESS'	DEG. CONSENSUS	N
Human Resource/Recruitment	3.6	25
Mining (Mining: Development, Production (Stope drilling, Blasting, Lashing), Tramming, Hoisting, Pumping, Supply Services	4.4	25
Mining Technical Services: Geology, Rock Mechanics, Planning, Ventilation, Survey	4.0	25
Processing: Crushing, Smelting, Refinery.	4.3	25
Manufacturing	2.8	25
Transport of ore and materials	4.4	25
Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance.	4.0	25
Equipment maintenance (Loaders and Hydraulic drill rigs)	4.2	25

Equipment rehabilitation, Fabrication	4.2	25
Services: Water and Sewage, Security, Transport of employees	3.8	25
Legal Services	3.9	25
Auditing/Accounting Services	3.8	25
IT	3.7	25
Supply Chain Management/Logistics	4.0	25
Marketing	4.1	25
Research & Design	3.5	25
Horticultural maintenance & maintenance of buildings, cleaning of offices	3.0	25

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Source: Author's Field data, 2015 ***Rate with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]***

In perspective, business functions agreed on as core business are symbolic of mining practices which have existed in a structure that has been postulated as the standard for decades. Key amongst these, is that respondents agreed transport of ore materials and Mining (Mining: Development, Production (Stope drilling, Blasting, Lashing), Tramming, Hoisting, Pumping, Supply Services as to be very important 'core business of the company. In addition to Processing: Crushing, Smelting, Refinery (consensus 4.2) and Equipment rehabilitation, Fabrication and Equipment maintenance (Loaders and Hydraulic drill rigs) with consensus of 4.2 each. However it is of note that respondents also felt some functions like marketing(consensus 4.1) , supply chain management(consensus 4.0) are an important core function as Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance (consensus 4.0). and respondents generally felt that though some activities might not be considered strictly mining

production functions, they form a key part of the company's core functions; Legal Services(consensus 3.9) Services: Water and Sewage, Security, Transport of employees(consensus 3.8) and Auditing/Accounting Services(consensus 3.8). A core function has to have a direct impact on the mining and processing flow of the ore from the underground production area to a saleable product; it should be of a continuous nature.

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Accordingly, Stacey (1999) argued that perhaps in the mining industry there are only two core competencies required which is financing and managing. It becomes clear when it is explained that the methodology and technology employed in mining and its subsequent processing is generally common throughout the world. Business functions typified as core business do not represent functions that are hard to copy. In reality, they are actually very similar from one mining company to another. However the application of the methodology and technology may be unique in one company to another.

core competencies although not given as a direct question in the research, the answers given by two recipients to description of core business conceptually captures the literary point of view; Core business should be something that we are good at i.e. have all necessary skills. Thus they indicated the description of "core business" to include processing, diamond drilling, and raise boring, mining technical services and supply chain management. They gave description of "non-core business" as Human resource, maintenance planning, legal section, and public relation section.

4.3 THE OUTSOURCING PROCESS EMPLOYED AT ANGLOGOLD ASHANTI OBUASI MINE.

4.3.1 Identification of factors affecting the outsourcing process

Table 4.5 below summarizes the Criteria for selection of Service Provider that affects or influences the outsourcing process at AngloGold Ashanti Obuasi mine.

Table 4.5: Degree of consensus of respondents on criteria for selection of Service Provider

CRITERIA FOR SELECTION OF SERVICE PROVIDER	DEG. CONSENSUS	N
Reliability	4.6	25
Credibility - past experience/track record	4.6	25
Type and range of specialist skills	4.4	25
Potential savings	3.6	25
Shows understanding of the core business	4.0	25
Flexibility	4.3	25
Management skills	3.9	25
Reputation and size of the service provider	3.6	25
Financial soundness of the service provider	4.4	25
Personnel policy	3.7	25
Recommended by Corporate head office	3.4	25

Source: Author's Field data, 2015.*Rate with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]*

Respondents were of the opinion that reliability and Credibility - past experience/track record of potential service providers of outsourced business functions (consensus of 4.6) are key in selecting service providers. They also believe strongly that Type and range of specialist skills and financial soundness of the service provider (consensus of 4.4) are equally formidable and can't be considered lightly and so is the Flexibility of the service provider (consensus 4.3). Respondents however agree that Reputation and size of the service provider (consensus 3.6) though quite important is the least of the qualities considered before selecting a contractor. This suggests there is a degree of fairness and selection is based mostly on merit and demonstrated capability.

4.3.2 Perception on Length of contract usually signed with Service Provider

Table 4.6 below summarizes the perception on length of contract usually signed with Service Provide at AngloGold Ashanti Obuasi mine.

Table 4.6: Respondents on Length of contract usually signed with Service Provider

LENGTH OF CONTRACT	FREQ.	PERCENT (%)
6mths -1 year	0	0
1 year- 3 years	15	60
more than 3 years	0	0
Other	10	40
TOTAL	25	100

Source: Author's Field data, 2015

In general, 15 of the respondents representing 60% indicated that the length of the outsourcing contract usually lasts from 1 year to 3 years. They were positive about this

because of the strategic nature of the mine in that, it is the policy of the mine to review contracts annually and thus most contracts will last at least a year and majority of them spreads between the first to the third year. The other 10 representing 40% of the respondents however were of the opinion that several factors inform the length of time involved in signing of contracts which includes among other things the particular project in mind, the particular function being outsourced, whether the function is time bound or not i.e. reason revolves around project lifespan and continuity of project in the future. This realization indicates that the company likes to retain the power to review contracts if not going according to their tactical plan as early as possible.

4.3.3 Perception on management of outsourcing relationships

Table 4.7 below summarizes the perception of respondents as to whether there is a team set up to manage each outsourcing relationship at AngloGold Ashanti Obuasi mine.

Table 4.7: Respondents on Presence of team set up to manage each outsourcing relationships

TEAM SET UP TO MANAGE RELATIONSHIP	FREQ.	PERCENT (%)
YES	18	72%
NO	2	8
NOT SURE	5	20
TOTAL	25	100

Source: Author's Field data, 2015

Indications resulting show that 72% of the respondents consisting of 18 people believe that a team is set up to manage each business function outsourced. Further probing in the interviews showed that though all outsourced contracts generally fall under the contracts department, due to the peculiar nature of each function, a team of experts of staff involved directly always are involved in the monitoring of the relationship so as to ensure that goals set are being met and that the service provider do not go out of line. 5 people consisting 20% were however not sure. This is probable because they form part of the newer staff employed under one year and due to the fact that the mine has undergone recent restructuring they have not had opportunity to witness how the outsourcing relationship is managed. 2 people representing 8% however said no and that all relationships are managed by a common group of people under the contracts department. Thus they implied whatever outsourcing is done; the contract department still is the basic monitoring organ of the organization.

4.3.4 Perception on criterion for assessing all potential relationships

Table 4.8 below summarizes the perception of respondents as to whether or not there be a single criterion used for assessing all outsourcing relationship at AngloGold Ashanti Obuasi mine.

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Table 4.8: Respondents on criterion for assessing all potential relationships

A SINGLE CRITERION FOR ASSESSING RELATIONSHIPS	FREQ.	PERCENT (%)
YES	23	92
NO	0	0
NOT SURE	2	8
TOTAL	25	100

Source: Author's Field data, 2015

Concerning whether the mine has separate criteria for assessing different outsourcing relationships, respondents generally agreed (92%) that there is a single criterion for assessing all potential relationship. Further probing indicated that as discussed earlier above, qualities like reliability, flexibility, competence in the particular function are considered highly in all their outsourcing relationships. Also there is a common criterion for assessing their performance, which is mainly goal oriented. Thus if they are able to achieve target agreed on and on favorable terms. 2 people representing *% were unsure however. This can be attributed to the fact that they are likely to be new there and have not seen much outsourcing contracts in order to judge objectively.

4.3.5 Perception who makes decisions on outsourcing business functions

Table 4.9 below summarizes the perception of respondents on who makes decisions on outsourcing business functions at AngloGold Ashanti Obuasi mine.

Table 4.9: Respondents on decision maker(s) in outsourcing business functions

DECISION MAKER	FREQ.	PERCENT (%)
The Human Resource Manager	0	0
The Chief Executive Officer	0	0
The General Manager	10	40
Board of Directors	0	0
Other	15	60
TOTAL	25	100

Source: Author's Field data, 2015

Majority of the respondents (60%) said the decision to outsource does not rest solely on one person but on a team headed by the general manager. Thus though they acknowledge that he is a key member in the making of the final decision, they further stated upon being probed that, usually at the managerial level, discussions and deliberations are made and managers who especially will have their work affected are given the chance to contribute a lot. But then all these must also fall in line with the company's long and short term policies. The remaining 40% however stated that the decision rests mainly with the general manager as he is the strategic team leader at the mine and is responsible for pushing the agenda of the mine forward. This implies in reality, they all have a fair idea what goes in to the decision making process. And that the presence of the team involved also further strengthens decisions made and allows cooperation from all involved.

4.4 BUSINESS FUNCTIONS BEING OUTSOURCED AT ANGLOGOLD ASHANTI OBUASI MINE.

4.4.1 Identification of business functions outsourced at the mine.

Table 4.10 below summarizes the perception of respondents on business functions outsourced at the at AngloGold Ashanti Obuasi mine.

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Table 4.10: Degree of consensus of respondents on business functions outsourced

BUSINESS FUNCTIONS	FREQ.	PERCENT (%)
Human Resource/Recruitment	0	0
Mining (Mining: Development, Production (Stope drilling, Blasting, Lashing), Tramming, Hoisting, Pumping, Supply Services	2	8%
Mining Technical Services: Geology, Rock Mechanics, Planning, Ventilation, Survey	0	0
Processing: Crushing, Smelting, Refinery.	0	0
Manufacturing	0	0
Transport of ore and materials	0	0
Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance.	20	80
Equipment maintenance (Loaders and Hydraulic drill rigs)	20	80
Equipment rehabilitation, Fabrication	15	60
Services: Water and Sewage, Security, Transport of employees	25	100
Legal Services	0	0
Auditing/Accounting Services	0	0

IT	0	0
Supply Chain Management/Logistics	0	0
Marketing	0	0
Research & Design	22	88
Horticultural maintenance & maintenance of buildings, cleaning of offices	25	100

Source: Author's Field data, 2015

Regarding the identification of business functions currently outsourced at the mine, there was 100% consensus that Horticultural maintenance & maintenance of buildings, cleaning of offices and Services: Water and Sewage, Security, Transport of employees are totally outsourced. 88% are of the view that research and design too are outsourced. This they believe is to improve the company's own focus as indicated earlier on and also to take advantage of more technically skilled organizations expertise in that area. And again the organization believes in focusing on what it terms as it 'core business' which rather is mainly is strength capabilities or competencies which is mainly in the mining. Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance and Equipment maintenance (Loaders and Hydraulic drill rigs) however is believed (80%) to be outsourced also because it affords the company the opportunity to keep its staff strength within limits and tap into other established and technically advanced and equipped companies to support. Similarly 60% of the respondents agree that Equipment rehabilitation, Fabrication is better when outsourced and so the company's decision to outsource it.

4.4.2 Identification of 'core business' functions performed internally.

Table 4.11 below summarizes the perception of respondents on 'core business' functions performed internally at AngloGold Ashanti Obuasi mine.

Table 4.11: Respondents on percentage of core business functions performed internally

PERCENT(CORE BUSINESS)	FREQ.	PERCENT (%)
0-30	0	0
35-55	2	8
60-95	20	80
100	3	12
Other	0	0
TOTAL	25	100

Source: Author's Field data, 2015

A clear majority of 20 people making up 80% of the respondents are of the opinion that 60 to 95 percent of the core business functions of the organization are performed internally. Out of the remaining 5, 3 more (12%) also believe 100 percent of the core business functions are performed internally. This is due to the fact that, they are of the opinion that the 'core' business of the company is mining and direct mining related activities ant the majority if not all of these are done by the company itself. But the 'supporting' functions are those outsourced to outside companies to help achieve overall goals. however 2 people making 8% also share the view that only 35 to 55 percent of

'core business' functions are performed internally and the rest are outsourced. This view is possible if taken into consideration that currently a lot of staff has been laid off and some of the key activities are being handled by an Australian firm AngloGold has a contract with.

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4.4.3 Identification of nature of sourcing Relationship contracts.

Table 4.12 below summarizes the perception of respondents on nature of sourcing relationship contracts at AngloGold Ashanti Obuasi mine.

Table 4.12: Respondents on Nature of sourcing Relationship contract

SOURCING RELATIONSHIP	Deg. Consensus	N
Rolling contracts	3.8	25
Performance based contracts	4.0	25
Partnerships (liabilities & rewards/joint risks)	3.6	25
Strategic alliances	4.2	25
Multiple suppliers providing seamless service	3.6	25
Flexible pricing contract(s)	3.4	25
Public Private Partnership/Private Finance Initiative	3.0	25
Preferred/trusted supplier(s)	4.5	25
Single contract (buyer/supplier)	4.5	25

Source: Author's Field data, 2015 ***Rate with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]***

Due to the fact that the mine lays a lot of emphasis on merit based contractual relationship and again will like to hold on to a form of control so as not to engage themselves in any long and unprofitable relationship, the preferred contractual relationship is either a single contract (consensus of 4.5) or Preferred/trusted supplier(s) (buyer/suppliers) also with consensus of 4.5. However, Strategic alliances (consensus of 4.2) and Performance based contracts (consensus of 4.0) are also used quite frequently and are important considerations. The least preferred and used is the Public Private Partnership/Private Finance Initiative (consensus 3.0) due to the complex nature of governmental structures and again the bureaucracies involved in those contracts which limits the controlling ability of the mining company. The assumption is that a single vendor does not possess world-class capabilities in all spheres of business thereby encouraging the view that companies should embark on selective outsourcing to multiple vendors. However with time there is a gradual shift towards more relationship based contracts such as strategic alliances as it encourages the sharing of ideas and risks.

4.5 THE SUCCESS OF OUTSOURCING PRACTICES AT ANGLOGOLD ASHANTI OBUASI MINE.

4.5.1 Identification of Performance assessment criteria for outsourced companies

Table 4.13 below summarizes the perception of respondents on performance assessment criteria for outsourced companies at AngloGold Ashanti Obuasi mine.

Table 4.13: Respondents on Performance assessment criteria for outsourced companies

CRITERIA FOR ASSESSING PERFORMANCE	DEG. CONSENSUS	N
Specialist skills available	3.0	25
Credibility - past experience/track record	2.5	25
Shows understanding of the core business	4.8	25
Reputation and size of the service provider	2.0	25
Reliability	5.0	25
Financial soundness of the service provider	4.0	25
Flexibility	4.8	25
Management skills	4.6	25
Personnel policy	4.0	25

Source: Author's Field data, 2015. ***Rate with 1 being least important and 5 being most important.[1 2 3 4 5 N/A]***

Key amongst the criteria for assessing the performance for outsourced companies as indicated by respondents is reliability in delivering the service (consensus of 5.0). Other equally important indicators are the flexibility offered by the outsourced firm and how it shows understanding of the core business. Sound management skills are also appraised (consensus of 4.6). However, reputation and size of the service provider (consensus of 2.0) is least considered in appraising performance of firms followed closely by Credibility - past experience/track record (consensus of 2.5). Thus though initially

before a company is selected to be a potential partner, its reputation and size of the service provider and Credibility - past experience/track record may come in strongly, when it gets to assess its current performance in achieving given targets, these things do not count as much as their reliability and flexibility will.

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4.5.2 Identification of perception on overall rating of success

Table 4.14 below summarizes the perception of respondents as to whether outsourcing has overall being successful at AngloGold Ashanti Obuasi mine.

Table 4.14: Respondents on perception on overall rating of success

OVERALL RATING OF SUCCESS	FREQ.	PERCENT (%)
YES	18	72
NO	2	8
NOT SURE	5	20
TOTAL	25	100

Source: Author's Field data, 2015

Generally, respondents were of the opinion that outsourcing at the mine has overall being successful (72%). This is due to the fact that records show that when business functions are outsourced, there is a higher probability of being performed at a lower cost than if performed internally. And again at a time when part of the mining was outsourced to a local contractor, results showed that they performed comparably well than even the parent company AngloGold Ashanti. 5 people representing 20% of the respondents are not sure whether they can rate overall the success of outsourcing functions. This when

probed further revealed that outsourcing had also brought along its own difficulties of repeated functions, laid off staffs, loss of employee morale especially when the outsourced firm was coming from overseas and were certain to receive higher wages than the workers of the parent company. 2 people representing 8% were specific in saying that outsourcing overall had not been a success. And the reasons given were similar as stated for those not sure. Thus above all, outsourcing can be successful or unsuccessful based upon the management of it and its accompanying issues.

4.5.3 Identification of availability of detailed service level agreements

Table 4.15 below summarizes the perception of respondents as to whether there is availability of detailed service level agreements at AngloGold Ashanti Obuasi mine for their contracts.

Table 4.15: Respondents perception on availability of detailed service level agreements

AVAILABILITY OF SERVICE LEVEL AGREEMENT	FREQ.	PERCENT (%)
YES	23	92
NO	0	0
NOT SURE	2	8
TOTAL	25	100

Source: Author's Field data, 2015

Majority of 23 people making 92% of the respondents agree to the presence of detailed service level agreements. Further probing indicated that most of them actually have

worked with it more than once or twice before as part of their work schedule. This they stated enables the company to stipulate its objectives and goals to potential partners and also to curtail future legal issues arising out of any contractual relationships. 2 people representing 8% were however not sure if something like that existed. Probing further showed that they received promotion into supervisory positions not long ago and thus were not privileged to have seen it or witnessed its use before.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

The results obtained from the research are summarized below:

The general objective of the study was to investigate how successful outsourcing has been at AngloGold Ashanti Obuasi mine. This research pursued both an exploratory and descriptive nature and was conducted as a single case-study. This work thus uses both qualitative and quantitative techniques to collect data from the staff and management of the procurement division of AngloGold Ashanti, Obuasi mine which were the targeted population. Data were coded and analyzed by the use of Statistical Package for the Social Sciences (SPSS) and Microsoft excel. The specific objectives were as follows:

5.1.1 To identify factors influencing outsourcing decisions at AngloGold Ashanti Obuasi mine.

The company employs outsourcing as both a tactical and operational tool to enhance its effectiveness in achieving overall quality of production and increasing productivity. In essence, the main drivers for outsourcing at the mine are to improve quality, increase company focus and reducing and controlling cost. With these as the main objectives, the company has been able to achieve these with significant increment in profitability in addition to other benefits resulting like gaining access to technology and capitalizing on other firm's core strengths to achieve goals.

In perspective, business functions agreed on as core business are symbolic of mining practices which have existed in a structure that has been postulated as the standard for

decades. Key amongst these, is that respondents agreed transport of ore materials and mining (Mining: Development, Production), Tramming, Hoisting, Pumping, Supply Services as to be a very important 'core business of the company. Others include Processing: Crushing, Smelting, Refinery and Equipment rehabilitation. Business functions typified as core business do not represent functions that are hard to copy. In reality, they are actually very similar from one mining company to another. However the application of the methodology and technology may be unique from one company to another.

5.1.2 To examine the outsourcing process employed at AngloGold Ashanti Obuasi mine.

Reliability and Credibility - past experience/track record of potential service providers of outsourced business functions are key in selecting service providers. This suggests there is a degree of fairness and selection which is based mostly on merit and demonstrated capability. Several factors inform the length of time involved in signing of contracts which includes among other things the particular project in mind, the particular function being outsourced, whether the function is time bound or not i.e. reason revolves around project lifespan and continuity of project in the future. This realization indicates that the company likes to retain the power to review contracts if not going according to their tactical plan. Whatever outsourcing is done; the contract department is responsible for monitoring. Also there is a common criterion for assessing their performance, which is mainly goal oriented. A team is set up to manage each business function outsourced. Also the decision to outsource does not rest solely on one person but on a team headed by the general manager though they acknowledge that he is a key member in the making of the

final decision. The entire process is quite cumbersome though but with mining companies' issues of high specificity of assets, it provides quite the framework to minimize errors in contracting.

5.1.3 To identify the business functions being outsourced at AngloGold Ashanti Obuasi mine.

The organization believes in focusing on what it terms as its 'core business' which is its capabilities or competencies mainly in mining. Non-core businesses like; Horticultural maintenance & maintenance of buildings, cleaning of offices and Services: Water and Sewage, Security, Transport of employees are totally outsourced. Special projects like Raise boring, Diamond drilling, Shaft maintenance and Equipment maintenance (Loaders and Hydraulic drill rigs) however are also partially outsourced because it affords the company the opportunity to keep its staff strength within limits and tap into other established and technically advanced and equipped companies to support. The 'core' business of the company is mining and direct mining related activities are done by the company itself. But the 'supporting' functions are those outsourced to outside companies to help achieve overall goals. Due to the fact that the mine lays a lot of emphasis on merit based contractual relationship and also likes to hold on to a form of control, the preferred contractual relationship is either a single contract or Preferred/trusted supplier(s) (buyer/suppliers). The assumption is that a single vendor does not possess world-class capabilities in all spheres of business thereby encouraging the view that companies should embark on selective outsourcing to multiple vendors. However with time there is a gradual shift towards more relationship based contracts such as strategic alliances as it encourages the sharing of ideas and risks. The company however has its detailed service

level agreements. This enables the company to stipulate its objectives and goals to potential partners and also to curtail future legal issues arising out of any contractual relationships.

5.1.4 To assess the success of outsourcing practices at AngloGold Ashanti Obuasi mine.

The single parameter for measuring the success of existing contractual relationship with outsourced firms is reliability and flexibility. Generally, outsourcing at the mine has overall being successful. There are records to show that when business functions are outsourced, there is a higher probability of being performed at a lower cost than if performed internally. Outsourcing has also brought along its own difficulties of repeated functions, laid off staffs, loss of employee morale especially when the outsourced firm was coming from overseas their staff were certain to receive higher wages than the workers of the mining company. Above all, outsourcing has been successful at the mine though it may also be said that there is still work to be done in the management of its accompanying issues.

5.2 CONCLUSION

Based upon the findings of the research, the following conclusions are drawn:

Outsourcing at AngloGold Ashanti mine has been overall successful. Due to the fact that, the mine has found a way to focus on its core business of mining. And has outsourced the non-core activities. Then again, some of the outsourcing decisions are driven by the desire to have the best done so the mine in that case outsources the work even if there is

capacity in-house to perform. The mine also benefits from a global market and therefore is able to contract the best of the lot in order to achieve set goals.

Comparatively, outsourcing has resulted in reduction of unnecessary costs for the mine and more importantly, keeping a smaller staff capacity which makes it easier for management to handle the mines day to day running.

Moreover it is an established fact that outsourcing has its own peculiar difficulties it brings on board. The management of arising difficulties is done holistically with teams set apart to manage their contractual relationships. It was observed that the mine has laid down strategies for outsourcing and goes by the book in implementing its decisions.

5.3 RECOMMENDATION

Based upon the findings in this study, the following suggestions or recommendations are given;

- First of all, though the mine has so far enjoyed a successful outsourcing paradigm shift, there is still work to be done in strengthening their competencies that are most critical to their mining environment and also that which the company is distinctively good at. The areas which are core to their activities but for which they have outsourced because they lack world class capacity should be worked on so as to be retained in-house or insourced (i.e. differentiation components or manufacturing processes). Where suppliers or contractors have a distinct comparative advantage, e.g. greater economies of scale, basically lower cost system or stronger performance drives, outsourcing or phasing out should be pursued (i.e. base components or manufacturing processes).

- The company must aim to use outsourcing proactively through a stronger focus on internal core business areas as a way to improve performance, generate employee commitment and consequently increase competitiveness and profitability. This presupposes that management creates a culture in the organization that enhances the core business and recognizes the benefits of outsourcing complementary competencies.
- Furthermore, the importance of integrating the outsourcing decisions with the strategic planning process must be looked into. Considering that outsourcing to many companies involves a paradigm shift as a much more strategic and alliance based relationship, it's important that management invests in building long standing relationships with specific suppliers as opposed to the current general vendor system being operated. The Company strategists need to address the internal strategies and the culture of the Company deciding whether these are appropriate in the prevailing internal and external environment. The logic behind strategies being there must be some competitive advantage to the Company and the rationale of the chosen strategy must reflect the advantage and the synergy of the interaction. If these are checked, organizations will better perform their activities.
- Further, the keys to successful outsourcing fall into three categories: strategic analysis, selecting the provider; and managing the relationship. And so any organization wishing to benefit immensely from outsourcing and capitalize to build must have a strong base in these three.

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APPENDIX A

QUESTIONNAIRE

Questionnaire Number…….

Date……

RESEARCH ON STRATEGIC OUTSOURCING AT ANGLOGOLD ASHANTI: A SUCCESS OR FAILURE

Please the following questionnaire is the result of an ongoing research by a final year Executive masters of Business Administration student of the Kwame Nkrumah University of Science & Technology Business School. The information gathered will go a long way to affect the result of the research and will be treated with the utmost confidentiality. So kindly grant about 10 minutes of your time and answer the questions as sincerely as you can. Thank you.

Demographic characteristics of Respondent

1. Name of Respondent……..

2. SEX: male☐ female☐ *(please tick)*

3. Status in organization *(please tick)*

   ☐Management staff ☐ Senior staff ☐ Junior staff

   ☐others (Specify)……

4. State your job designation…….

5. How long have you been working with this company? *(please tick)*

   More than 10 years ☐ 5 to 10 years ☐ 2 to 5 years ☐ 1 year and less☐

PART A: Background and specifics of Outsourcing Relationships

6. Does your company outsource some business functions? *(please tick)*

   ☐ Yes ☐ No

7. If your answer to the previous question was "no", please state the reason.

   ……

   ……

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8. If your answer to the previous question was "yes", what functions are usually outsourced in your company? If other, please specify.

   ☐Human Resource/Recruitment

   ☐Mining (Mining: Development, Production (Stope drilling, Blasting, Lashing), Tramming, Hoisting, Pumping, Supply Services

   ☐Mining Technical Services: Geology, Rock Mechanics, Planning, Ventilation, Survey

   ☐Processing: Crushing, Smelting, Refinery.

   ☐Manufacturing

   ☐Transport of ore and materials

   ☐Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance.

   ☐Equipment maintenance (Loaders and Hydraulic drill rigs)

   ☐Equipment rehabilitation, Fabrication

   ☐Services: Water and Sewage, Security, Transport of employees

   ☐ Legal Services

   ☐ Auditing/Accounting Services

   ☐ IT

   ☐ Supply Chain Management/Logistics

   ☐ Marketing

   ☐ Research & Design

☐Horticultural maintenance & maintenance of buildings, cleaning of offices

☐ Other

……

9. What percentage of core business functions is performed internally? If other, please specify.

   ☐ 0-30% ☐ 35-55% ☐ 60-95% ☐ other……..

10. How long has your company been outsourcing its functions? If other, please specify.

    Under 1 year☐ 2 years to 5 years☐ More than 5 years☐ other……..

PART B: factors influencing outsourcing decisions at AngloGold Ashanti Obuasi mine

11. *Please rate the importance of these factors to your company's outsourcing decisions with 1 being least important and 5 being most important.[1 2 3 4 5 N/A]*

Reduce and control operating costs	[ ]
Improve company focus	[ ]
Improved quality	[ ]
Free up internal resources	[ ]
Obtain resources not available internally	[ ]
Gain access to world-class capabilities	[ ]
Deal with a function that is difficult	[ ]
To release capital funds	[ ]
Gain access to world-class technology	[ ]
Obtain a cash infusion/flow improvement	[ ]
Shared risk	[ ]
Accelerate re-engineering benefits	[ ]

12. *Please rate the importance of these functions to your company's core business with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]*

[ ] Mining: Development, Production (Stope drilling, Blasting, Lashing), Tramming, Hoisting, Pumping, Supply Services

[ ] Mining Technical Services: Geology, Rock Mechanics, Planning, Ventilation, Survey

[ ] Processing: Crushing, Smelting, Refinery.

[ ] Manufacturing

[ ] Transport of ore and materials

[ ] Mining: Special projects like Raise boring, Diamond drilling, Shaft maintenance.

[ ] Equipment maintenance (Loaders and Hydraulic drill rigs)

[ ] Equipment rehabilitation, Fabrication

[ ] Services: Water and Sewage, Security, Transport of employees

[ ] Human Resource/Recruitment

[ ] Legal Services

[ ] Auditing/Accounting Services

[ ] IT

[ ] Supply Chain Management/Logistics

[ ] Marketing

[ ] Research & Design

[ ] Horticultural maintenance & maintenance of buildings, cleaning of offices

13. Who makes the decision to outsource, if any? If other, please specify.

☐ The Human Resource Manager

☐ The Chief Executive Officer

☐ The General Manager

☐ Board of Directors

☐ Other

……

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PART C: factors influencing outsourcing process at AngloGold Ashanti Obuasi mine

14. Criteria for the Selection of the Service Provider

    Please rate the importance of these factors to your company's outsourcing process with 1 being least important and 5 being most important.[1 2 3 4 5 N/A]

    Reliability [ ]
    Credibility - past experience/track record [ ]
    Type and range of specialist skills [ ]
    Potential savings [ ]
    Shows understanding of the core business [ ]
    Flexibility [ ]
    Management skills [ ]
    Reputation and size of the service provider [ ]
    Financial soundness of the service provider [ ]
    Personnel policy [ ]
    Recommended by Corporate head office [ ]

15. The length of contract signed with the service provider:

    6 months to 1 year ☐ 1 year to 3 years ☐ more than 3 years ☐ other…………….

16. What factor(s) influence the length of contract time signed with service provider?

    ,,
    ,,

17. Is there a team set up to manage each outsourcing relationship?

    ☐ Yes ☐ No ☐ Not sure

18. Is there a single criterion for assessing all potential outsourcing relationships or it differs across business functions?

    ☐ Yes ☐ No ☐ Not sure

19. If answer in 19 above is No, can you elaborate…….

PART D: Business functions outsourcing at AngloGold Ashanti Obuasi mine.

20. Nature of sourcing Relationship

Please indicate the nature of outsourcing relationship commonly employed in the outsourcing contracts. Grade them with 1 being least important and 5 being most important. [1 2 3 4 5 N/A]

[ ] preferred/trusted supplier(s)
[ ] single contract (buyer/supplier)
[ ] rolling contracts
[ ] performance based contracts
[ ] partnerships (liabilities & rewards/joint risks)
[ ] strategic alliances
[ ] Multiple suppliers providing seamless service
[ ] Flexible pricing contract(s)
[ ] Public Private Partnership/Private Finance Initiative

21. What functions will you describe as core business in your industry?

……
……
……
……
……

22. What functions will you describe as non-core business in your industry?

……
……
……
……
……

PART E: Assessing the success of outsourcing practices at AngloGold Ashanti Obuasi mine

23. Performance Criteria

Please rate the importance of these factors to assessing success of outsourcing practices with 1 being least important and 5 being most important.[1 2 3 4 5 N/A]

Specialist skills available [ ]

Credibility - past experience/track record [ ]

Shows understanding of the core business [ ]

Reputation and size of the service provider [ ]

Reliability [ ]

Financial soundness of the service provider [ ]

Flexibility [ ]

Management skills [ ]

Personnel policy [ ]

24. Will you say outsourcing at the mine has overall been successful?

☐ Yes ☐ No ☐ Not sure

25. Do you have detailed service level agreements (SLAs) that provide for performance measures, incentives and penalties?

☐ Yes ☐ No ☐ Not sure

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APPENDIX B

INTERVIEW GUIDE

RESEARCH ON STRATEGIC OUTSOURCING AT ANGLOGOLD ASHANTI: A SUCCESS OR FAILURE

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Demographic characteristics of Respondent

- SEX
- Status in organization
- Job designation
- How long have you been working with this company?

Outsourcing and outsourcing process

- In your opinion, what are the different types of outsourcing engagements?
- What distinguishes outsourcing, service procurement and sub-contracting from each other?
- What is outsourced in your company? Why?
- Who is responsible for outsourcing ventures? Contracts? Control and coordination?

Drivers/factors of outsourcing

- What are the risks of outsourcing?
- What are the benefits of outsourcing?
- Which functions/processes/tasks you would never outsource? Why?
- Which functions/processes/tasks you would outsource? Why?
- What are the successes and failures of outsourcing in your company?

Decision characteristics

- What kind of services your company would like to procure?
- How are suppliers selected? What kinds of attributes are important?
- Are there any problems with supplier availability?

- ✓ Capability?
- ✓ Knowledge?
- ✓ Capacity?

- In your opinion, when is it appropriate for a company to use different types of outsourcing engagements?
- How would you describe outsourcing in mining industry?

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General questions

- Based on your experience, what advice would you give to service providers who want to make business with you?
- What has been your company's overall satisfaction in outsourcing?