

**AN EVALUATION OF LOGISTICS OUTSOURCING STRATEGIES IN THE
GOLD MINING INDUSTRY,
A CASE STUDY OF ANGLOGOLD ASHANTI OBUASI MINE**

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By

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EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION

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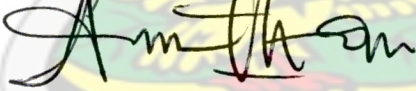
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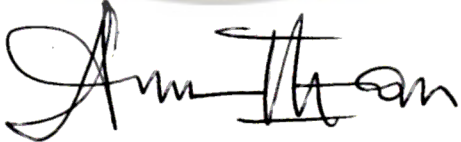
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ABSTRACT

Outsourcing in the world today is seen as a strategic management option rather than just a cost cutting operation. It aids companies to achieve their business objectives through operational excellence and a better market position. In order for companies to focus on their core competencies, all companies today outsource one or more of their operations. In order to compete in the global economy, companies need to focus their resources on their core operations. According to a logistics literature, there are myriad reasons why firms choose to perform their own logistics activities in-house or choose to outsource those functions. The two most frequently cited reasons for outsourcing logistics activities are cost reduction and service improvement expectations from outsourcing.

The management and staff of AngloGold Ashanti Obuasi mines face increasing pressure from new technologies and competition for trained resources when planning, developing and maintaining all of their activities internally. In response, managers have sought to use both internal and external resources to meet business needs effectively. External bodies have been utilized to meet agency demands but concerns over rising costs and contract effectiveness have led to the need to re-evaluate the decision-making process.

It is in this regard that this study is being conducted at AngloGold Ashanti Obuasi mine to evaluate the Logistics outsourcing strategies in place, to determine the benefits in outsourcing and the strategies adopted in selecting and evaluating service providers.

In doing so, content analysis was employed to facilitate synthesis of responses that were gathered through interviews, questionnaires and personal observations.

It was revealed that, AngloGold Ashanti is using a strategy called Prescriptive Model which is focused on five systematic procedures in selecting and evaluating third-party logistics providers. This strategy provides a feedback mechanism which can result in termination, re-tendering or renewal of the contract based on the kind/type of services rendering.

In conclusion, depending on the type/kind of services to be outsourced, it is recommended that AngloGold Ashanti should be a little bit flexible or bypass the systematic strategy to save time and ensure prompt delivery of services since at times some of the services may be monopolistic in nature. And In the same way, on-going impact assessment mechanism should be established by management so that the outcome will inform policy formulation. Impact assessment could be carried out regularly (for example, every 2-3 years). This will help test how service providers are progressing after each cycle of the operation.



DEDICATION

This project is dedicated to my beloved wife Gloria and children Ama Konadu, Nana Kwasi and Afua Boakyewaah for their love, care, prayer support and guidance during this challenging period.

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To you all, I say, I am grateful and may God richly bless you. Amen

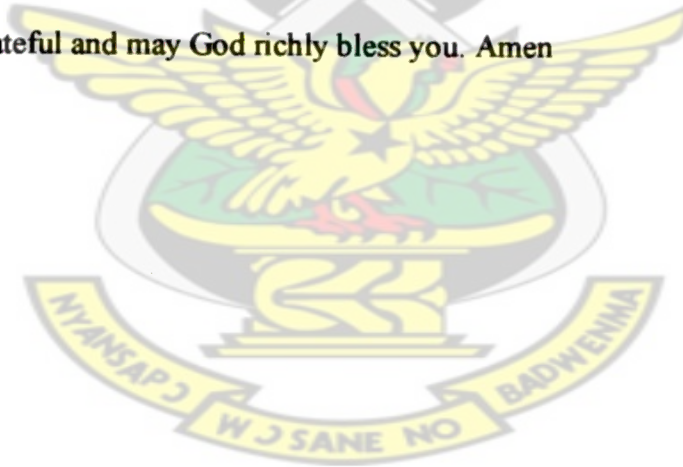


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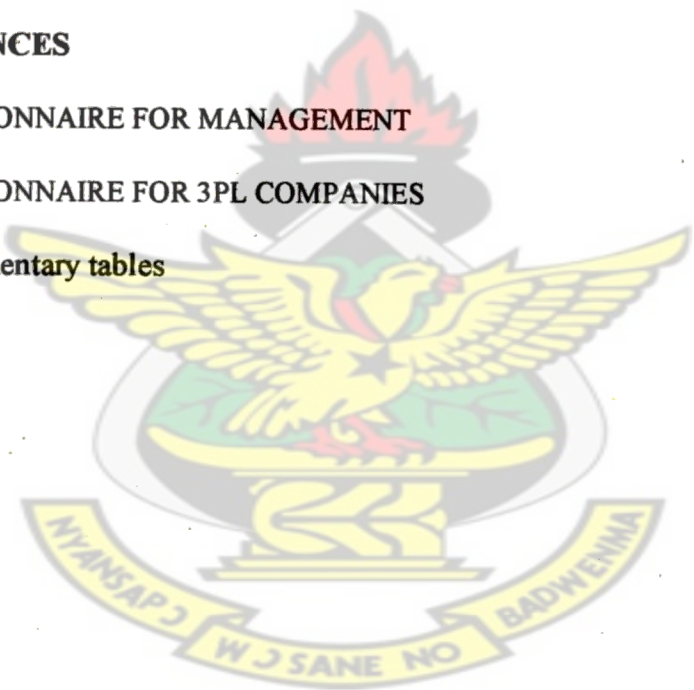
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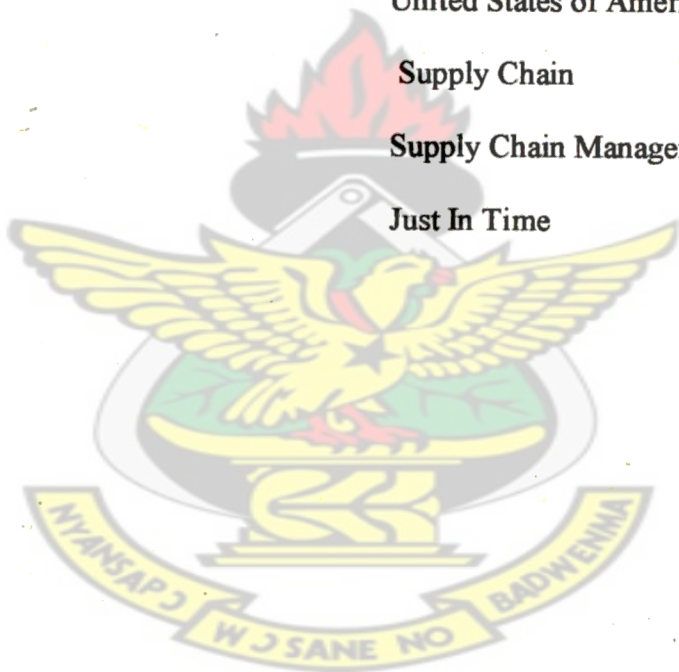
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LIST OF ABBREVIATIONS

3PL	Third-party Logistics
CLM	Council of Logistics Management
ILS	Integrated Logistics Support
LSA	Logistics Support Analysis
EU	European Union
RIL	Ryder Integrated Logistics
USA	United States of America
SC	Supply Chain
SCM	Supply Chain Management
JIT	Just In Time



CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The world wide trend in globalization has led many companies to outsource their logistics functions to third-party (3PL) companies, so as to focus on their core competencies. According to Bendor (1998), outsourcing provides a certain power that is not available within an organization's internal departments. This power can have many dimensions, economies of scale, process expertise, access to capital, access to expensive technology, etc. Another possible benefit is that outsourcing provides companies with greater capacity for flexibility, especially in the purchase of rapidly developing new technologies, fashion goods, or the myriad components of complex systems (Harrison, 1994).

Owing to the globalization of outsourcing, manufacturing and production, distribution companies in recent years have been adopting the logistics management approach to guide their business operations. The adoption of logistics concepts has increasingly enabled such companies to focus on their core business and, at the same time, outsource their transport and other logistics activities.

The study is not intended to encourage or discourage outsourcing. The purpose of the study is to stress that outsourcing or in-sourcing decisions should be based on a solid business case analysis of alternatives. The business case is always unique to the agency or the establishment. Outsourcing is a key opportunity for state agencies and companies to leverage taxpayer funds but ensuring its success requires the agency to be fully aware of the differences between the two resource alternatives.

Logistics is that part of the supply chain processes that plans, implements and controls the efficient and effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customer requirement. Council for Logistics Management, CLM (1998).

Logistics outsourcing is defined as an arrangement whereby a logistics provider performs services for a firm that could be, or have been, provided in-house. One of the advantages of using 3PL results from economies of scale and economies of scope, which encourage firms to increase net value by reducing costs. The effects of these economies depend on the type of 3PL provider. Competent 3PL providers possess high coordination ability, enabling them to find reliable partners or sub-contractors, and to efficiently manage the inter-firm flow of goods. Such ability can be developed through experienced 3PLs.

By outsourcing logistics activities, firms can save on capital investments, and thus reduce financial risks. Investment on logistics assets, such as physical distribution centers or information networks usually need large and lump sum costs, which involves financial risks. Third-party providers can spread these risks by outsourcing to sub-contractors.

AngloGold Ashanti's Obuasi mine has been in existence for more than one hundred years and therefore has utilized different method of procurement strategies and systems over the period. The company adopted supply chain management systems in 1993. Before 1993, the company practiced the "segregated mine store system". This system was structured as a mine store department and a purchasing department. The main function of the mine store was receiving and issuing goods in and out of the warehouse whilst the purchasing department was responsible for buying goods required for the mining operation.

The introduction of supply chain management systems saw the company outsourcing the purchasing of goods and other maintenance services to Third-party logistics service providers. It is in this regard that this study is being conducted at AngloGold Ashanti Obuasi mine to evaluate the Logistics outsourcing strategies in place, to determine the benefits in outsourcing and the challenges faced by these providers

1.2 Problem Statement

Many firms have turned to logistics outsourcing as a way to restructure their distribution networks and gain competitive advantage. Logistics outsourcing in which a Third Party Logistics (3PL) provider is contracted for all or part of an organization's logistics operations has seen a consistent increasing use. Although there are clearly gains and losses of using logistics outsourcing. The management and staff of AngloGold Ashanti Obuasi mines face increasing pressure from new technologies and competition for trained resources when planning, developing and maintaining all of their activities internally. In response, managers have sought to use both internal and external resources to meet business needs effectively. External bodies have been utilized to meet agency demands but concerns over rising costs and contract effectiveness have led to the need to re-evaluate the decision-making process.

The decision whether to use internal or external resources must be made by:

- ❖ Understanding the needs and constraints of the organization;
- ❖ Identifying and prioritizing the goals of the project;
- ❖ Identifying and quantifying the appropriate measures for internal and external operations; and
- ❖ Conducting a cost-benefit analysis of the internal and external alternatives.

1.3 Research Objectives

Following from the statement of research problem and questions, the main objective of the study is to study the logistics outsourcing strategies put in place at AngloGold Ashanti Obuasi mines.

The study sets out to achieve the following specific objectives:

1. To examine the gains or benefits of outsourcing logistic functions to AngloGold Ashanti mines.
2. To find out the kind/type of operations/activities that is given out by AngloGold Ashanti to external companies.
3. To identify the challenges encountered as a result of outsourcing logistics functions to Third-Party service providers.
4. To identify the third party logistic companies and their functions to Anglogold Ashanti Mines.
5. To assess the level of coordination between the service providers and the company.
6. To recommend efficient and effective logistics outsourcing practices to the company.

1.4 Research Questions

The research tries to address questions such as:

1. Is AngloGold Ashanti benefiting or losing from outsourcing?
2. What operation/activities are given out by AngloGold Ashanti to other companies?
3. What are the challenges associated with outsourcing?
4. Why would AngloGold Ashanti outsource some of its operation?
5. What strategy is employed in the outsourcing processes?

1.5 Justification of the Study

The purpose of study is to evaluate the logistics outsourcing strategies in place at AngloGold Ashanti Obuasi mine. AngloGold Ashanti Obuasi mine's Procurement activities, Inventory management, transportation and maintenance services contributes about 65% of the company's total cost. It is therefore necessary to manage these functions in the most efficient and effective manner for the company to enjoy some cost savings.

For effective implementation of every project, it is important to undertake interim assessment after some years of operation to assess the programmes outcome, indicators and related issues. This is very necessary to sharpen policy, institute control measures and create the basis for expansion of positive results.

1.6 Scope

Conceptually the study covers the areas of procurement, transportation, inventory management and maintenance services of the AngloGold Ashanti Obuasi mine and the contribution of these outsourcing firms to the development of AngloGold Ashanti Obuasi mine.

Geographically, the study deals specifically with the AngloGold Ashanti Obuasi mine in the Ashanti region but are generally concerned with the situation in other entities as a whole. The selection of the AngloGold Ashanti Obuasi mine is based on the fact that it has outsourced some of their operations to external service providers.

1.7 Methodology

For this task to be achieved, both qualitative and quantitative methods were used. Comprehensive survey questionnaires were designed to capture the facts and figures, as well as

qualitative responses about the outsourcing practices and strategy at the AngloGold Ashanti's Obuasi mine.

Questionnaires were sent to management of AngloGold Ashanti Obuasi mine and the logistics service providers in the areas of inventory management, Transportation and Maintenance services to the mine. Apart from the primary data that were gathered from the field studies, secondary data were also used in analyzing and comparing the primary data to arrive at a firm position. A more detailed methodology is outlined in chapter three.

1.8 Limitations of the Study

Certain limitations were encountered in the course of the research which in a way created some slight problems for the smooth conduct of the study. One of them was the difficulty in assessing information from the service providers who are competitors. Apathy on the part of some respondents was not encouraging. Some of the respondents felt reluctant to respond to the questions which were prepared for the survey. But notwithstanding all these restrictions, the research was conducted taken advantage of the limited resources available. The limitations were not setbacks to the overall success of the study.

1.9 Organisation of the Study

This report is structured into five main chapters. Chapter one is made up of the general introduction, problem statement, objectives of the research and scope of the study. Chapter two entails literature review of relevant issues on the concept of logistic outsourcing, the drivers or consideration factors in outsourcing and other relevant issues about why organisations ought to outsource.

Chapter three gives an overview of the study area in relation to its characteristics.

Chapter four looks at the qualitative and the quantitative analysis of the field data while the last chapter also bodies summary of major findings and recommendations.

1.1 Logistics

The main objective of the study is to

supply the necessary information

manufacturing and distribution

supply the necessary information

supply the necessary information

supply the necessary information

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CHAPTER TWO

2.0 CONCEPTUALISING THE IMPACT OF LOGISTICS OUTSOURCING

2.1 Logistics

The management of the movement, storage, and processing of materials and information in the supply chain. Logistics encompasses the acquisition of raw materials and components, manufacturing or processing, and the distribution of finished products to the end user. Each organization focuses on a different aspect of logistics, depending on its area of interest. For example, one might apply logistics to find a way of linking physical distribution management with earlier events in the supply chain, another to plan its acquisition and storage, while a third might use logistics as a support operation.

Logistics can broadly be grouped into two aspects namely, Materials management and Physical distribution (Thormmarsh, 2007). Materials management is concerned with movement of material inputs into a firm. It deals with relationship with suppliers, procurement process, transportation of input materials and inventory control.

Physical distribution on the other hand is concerned with the movement of a firm's outputs to the customers. It has to do with processing of orders for the firm's goods or service, warehousing of finished goods, transportation of the finished goods to customers and customer service. To achieve the functions mentioned above, collaboration of companies concerned is essential and development of logistics using supply chains is required.

According to Council of Supply Chain Professionals formally known as Council of Logistics Management (2005), logistics is the process of planning, implementing and controlling the

efficient, effective flow and storage of goods, services and related information from the point of origin for the purpose of conforming to customer requirements.

Logistics management is “part of the supply chain that plans, implements, and controls the efficient and effective forward and reverse flow and storage of goods, services, and related information between the points of origin and the point of consumption in order to meet customer’s requirement” (Vitasek, 2007). Therefore, supply chain management is much broader in conception than logistics management. The goal of logistics activities is to satisfy the needs of the ultimate consumer. Thus logistics managers should ensure that the right product, in the right quantity, in the right condition is delivered to the right customer at the right cost. Recently, it has been highlighted that successful logistics management depends more and more on the performance of the 3PLs.

2.2 Category of Logistics

2.2.1 Acquisition Logistics

Acquisition Logistics is everything involved in acquiring logistics support equipment and personnel for a new system. The formal definition is "the process of systematically identifying, defining, designing, developing, producing, acquiring, delivering, installing, and upgrading logistics support capability requirements through the acquisition process for a systems, subsystems and equipment.

2.2.2 Integrated Logistics Support (ILS)

- ❖ ILS is a management function that provides planning, funding, and functioning controls which help to assure that the system meets performance requirements, is developed at a reasonable price, and can be supported throughout its life cycle.

- ❖ Encompasses the unified management of the technical logistics elements that plan and develop the support requirements for a system. This can include hardware, software, and the provisioning of training and maintenance resources. (Cooke, 1993)

2.2.3 *Logistics Support Analysis (LSA)*

Simply put, LSA is the iterative process of identifying support requirements for a new system, especially in the early stages of system design. The main goals of LSA are to ensure that the system will perform as intended and to influence the design for supportability and affordability.

2.3 **Outsourcing**

The Webster's Universal Dictionary meaning of "Outsourcing" is: "A company or person that provides information; to find a supplier or service, to identify a source". It is very important to be clear about what is meant by outsourcing. Outsourcing essentially refers to how things are done rather than what is done.

Very simply outsourcing can be seen as a process in which a company delegates some of its in-house operations/processes to a third party. Thus outsourcing is a contracting transaction through which one company purchases services from another while keeping ownership and ultimate responsibility for the underlying processes. The clients inform their provider what they want and how they want the work performed. So the client can authorize the provider to operate as well as redesign basic processes in order to ensure even greater and efficiency benefits.

The decision to outsource is often made in the interest of lowering firm cost, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of labour, capital, technology and resources. Based on the definition, outsourcing is an activity that involves mainly two parties. The clients company or outsourcing company, who outsource logistics activities and the outsourcing service provider who performs those outsourced activities. (Momme 2002)

According to Deckers (2000), outsourcing does not end at decision-making or performance measuring, it also demands control mechanisms. However, different to managing internal functions and activities, the management of outsourcing requires managers to work with both internal departments and external service providers. Thus, questions like what aspects of logistics outsourcing need to be managed with distinct effort, how to control and coordinate these aspects pose problem area to be studied.

According to Sink and Langley (1997), Outsourcing is a viable business strategy because turning non-core functions over to external suppliers enables companies to leverage their resources, spread risks, and concentrate on issues critical to survival and future growth. Many firms have turned to logistics outsourcing as a way to restructure their distribution networks and gain competitive advantages.

2.4 History of Logistics Outsourcing

Outsourcing of logistics services is not a new concept. Although it has gained renewed emphasis in recent years, the practice can be traced back almost as far as one would care to research it. In Europe, a number of logistics service providers can trace their origins to the middle Ages. The first commercial warehouse operations were built in Venice, Italy, in the 14th

century. Merchants from across Europe used them as collection and distribution points (American Warehousemen's Association, 1991). In the United States, the outsourcing of transportation and warehousing was common throughout the 1950s and 1960s. The relationships were primarily transactional and typically short term in nature.

During the 1970s, manufacturers throughout the industrialized world put heavy emphasis on cost reductions and improved productivity. Companies also began to realize that the real competitive edge was in enhanced customer service and relationships. The managerial resources and technological investment required to support both increased efficiency and customer effectiveness expanded significantly. As a result, there was an accelerated interest in outsourcing any function not directly related to a company's core business. This was particularly true of smaller companies that could contract with logistics providers to offer service superior to what they could facilitate on their own. Many manufacturing firms, therefore, found logistics outsourcing to be an effective method of freeing resources to focus on the core business.

The movement toward logistics outsourcing was fueled by the deregulation of common transportation carriers of all modes throughout Europe and the United States in the late 1970s and early 1980s. These firms, newly freed from stifling regulation, were able to enter into innovative, long-term relationships with customers, and true logistics partnerships began to surface. The alliances quickly brought about major improvements in both customer service and logistics economies.

Longer term relationships with logistics service providers became more common, particularly in the warehousing area. Single-tenant facilities were built and operated by warehouse companies in major markets. Consolidation of facilities into larger operations became more

and more frequent. By the early 1980s, services offered by the outside firms expanded rapidly. The so-called value added services included packaging, blending, systems support, inventory management, customized handling, and other offerings that had not been available previously. More users began to rely on their provider to handle complex technologies required to deliver such value-added service, including warehouse management systems, transportation management systems, and supply chain event management systems.

In Europe, the growth in outsourcing was sparked to an even greater degree by the creation of the European Union (EU) and the subsequent removal of requirements to hold inventory within each individual EU country. These changes brought with them a phenomenal number of mergers and acquisitions. In many cases, firms found themselves with more warehouses and distribution centers than any one company wanted, facilitating significant reanalysis of distribution systems to put centers where they really ought to be.

The changes that brought about increased logistics outsourcing also fostered a wave of consolidation in the logistics provider industry, and users of services found themselves dealing with different companies and individuals, as well as different cultures. Today, there is still plenty of room for growth in logistics outsourcing. Only about 12% to 14% of the relevant logistics services in the United States are outsourced. In Europe, where outsourcing has a longer history, the percentage is more than twice that. As business continues to move into low-cost labour markets in relatively underdeveloped countries in Southeast Asia and Eastern Europe, the need for experienced logistics providers will spiral. (Lynch, Stank, Scott, 2007).

2.5 Definition of Logistics Outsourcing

Logistics outsourcing is defined as an arrangement whereby a logistics provider performs services for a firm that could be, or have been, provided in-house.

Logistics outsourcing may also be defined as a management strategy by which major non-core functions are transferred to specialist, efficient providers. (Lysons and Farrington, 2006)

Outsourcing is deciding to obtain selected goods and services from outside your company, finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services, by utilizing the knowledge, experience and creativity of new suppliers (Kraker, 1995). Neale also describes outsourcing as the practice of handing over the planning, management and operation of certain functions to an independent third-party (Neale, 1995).

Outsourcing thus, entails a long-term relationship between supplier and beneficiary, with a high degree of risk-sharing (Anon., 1995). According to Bradley (1994) there is no difference between outsourcing logistics functions and any other procurement process. He asserts that like a reliable supplier of materials and parts, contract logisticians should also provide a high level of customer satisfaction so that their clients can become a tougher competitor.

Traditionally handled by the firms internally as support functions, logistics activities such as transportation, distribution, warehousing, inventory management, order processing and material handling have been given low priority compared with the other business functions. However the need for developing sustainable competitive advantage, the growing emphasis on providing good customer service effectively and efficiently and the strategic value of focusing on core businesses and re-engineering resulted in the evolution of contract logistics.

According to Mentzer *et al.* (2007), logistics Outsourcing is an arrangement whereby logistics service provider perform services for a firm that could be, or have been, provided in-house. He examined that logistics outsourcing is a means of firms giving out logistics activities to outside organizations to execute them based on mutually agreed contracts.

Harps (2001) emphasized that 3PLs helped firm's deal with multinational transportation requirements and inconsistencies. In the US, there has been a recent trend for firms to focus on their core business competencies in order to create a sustainable competitive advantage. This has created the need for outsourcing support activities, therefore creating growth opportunities for 3PLs. Fila, USA, for example, reports that its decision to outsource its athletic footwear and apparel distribution capabilities to Ryder Integrated, Logistics (RIL) will enable the company to focus on its core competency of athletic footwear and apparel design, marketing and sales, while providing a significant reduction in overhead costs. The main reason why firms outsource their logistics activities to 3PLs is a desire to reduce costs (Mercer Management Consulting, 2002). Today, third-party logistics is a key component of logistics management strategy in many industries. (Gooley, 2002).

2.6 Differences between Outsourcing and Contracting

Although the above meaning of outsourcing may seem very similar to contracting, it is to be said that contracting and outsourcing are in no way related. Generally in contracting the ownership or control of the operation or process being contracted is with the parent company, whereas in outsourcing the control of the process is with the third party instead of the parent company. So in other words, outsourcing can be stated as phenomena in which a company delegates a part of its in-house operations to a third party with the third

party gaining full control over that operation/process.

Services such as, bureau services, contract programming and project management have been outsourced for a long time. In its present meaning, however, outsourcing refers to a greater level of handing over ownership and/or managerial control than has before been the case. (De Boer et al, 2006)

Companies turn to resources outside their organizational structure, usually to save money and/or make use of the skilled professionals. For instance, a company might outsource its IT management because it is cheaper to contract a third-party to do so than it would be to build its own in-house IT management team. Or a company could outsource all of its data storage needs because it is easier and cheaper than buying and maintaining its own data storage devices. A business might also outsource its human resource tasks to another enterprise instead of having its own dedicated human resources staff.

2.7 Supply Chain Management

Supply chain management can be defined as the process of planning, implementing and monitoring the everyday operations of a supply chain. Supply chain management is an all encompassing process as it undertakes the management of availability of raw materials, their processing into finished goods and the distributions of the same. The aim of all this is to provide the highest level of satisfaction to the customer and thus increase the business of the company. And with the increasing complexity of the supply chain, supply chain management has also become about coordinating and collaborating with the different trade partners now involved in the supply chain.

Supply chain management is supposed to be undertaken by the high level management committee of the company. The employees have to willingly adhere to their decisions in order to bring about maximum efficiency in the supply chain.

Supply chain management decisions are made on three different levels- the tactical, strategic and operational levels. Strategic level involves long term decisions while tactical level includes medium term decisions while operational level is concerned with very short term day-to-day operational concerns.

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2.8 Relationship between Supply Chain Management and Outsourcing

Supply Chain Management (SCM) and outsourcing have both been given increasing attention since their applications were recognised by many as significant profit and performance enhancers. Every business is a part of a big Supply Chain (SC) and supply network (Handfield and Nichols, 1999). Nevertheless, the management of a company could choose to either; (a) implement only SCM, or (b) implement only outsourcing or (c) implement both outsourcing and SCM.

The decision to apply either outsourcing or SCM or even both rests on the management's readiness to face the consequences each application brings. As outsourcing may increase organisation's operating flexibility and allow the transfer of operational risks to another party, SCM though utilises more resources, in a way gives the organisation direct involvement with each stage of every processes and functions, and thus allowing clearer view and direct control for improvement. A fine example of situation (a) is a big company which has it all; from the acquiring of resources from mother earth, manufacturing, processing, delivering and finally the delivery of the final product to the end customer. It may not reside on one big area but

scattered around, but the asset and management of all processes however trivial are the company's own responsibility and done by its own staff.

A company may choose not to embark in the management of Supply chains; the reasons may range from inadequacy of assets or expertise, to the nature of businesses they are in. It may however at that time outsource a number of the company's functions, such as those perceived as non-core activities like cleaning, maintenance of buildings and so forth. These are the cases where outsourcing function stands individually to the respected companies, though they may be involved in a Supply chain managed by another organization.

Increasing number of companies however has adopted a strategy which led to the outsourcing of more activities to suppliers (McIvor, 2003). This strategy has resulted in the company becoming a 'systems integrator', in which it manages and coordinates a network of best production and service providers. Such strategy is based on the premise that the company should outsource those activities (both production and service) where it can develop no strategic advantage, with the supply base comprising a network of specialist focusing on their distinct area of competence delivering products and services to the systems integrator. Therefore, it may be seen that the growing practice of outsourcing by a company could in the end lead to the implementation of SCM. This could be further encouraged by intensifying competition among industry players, and the widening trend of supply network competing against other supply networks rather than single entity or company against others.

Interestingly, a company which has only been practicing SCM could also in the end exercise both SCM and outsourcing. In a broad sense, SCM may also simply mean to 'manage a Supply

chain. Where this is the condition, an SCM itself can be outsourced by a company to another, whereby the management of all external processes, information and material flows and so forth to meet the main company's needs become the Supply chain manager's responsibility. The main company shall then focus on its internal core processes while monitoring the performance of the Supply chain manager, by setting a certain standard in which the service provider will have to meet.

Outsourcing may also be one of the important tools for a company practicing SCM to reap as much benefits as possible (Bales *et al*). Whether outsourcing opens the door to practicing SCM and/or plays a beneficial role to make SCM more effective and efficient, or; the other way round, relies entirely on the practice and perception of a company.

SCM and outsourcing have both been given increasing interest by organisations worldwide, especially due to intensifying competition at both national and global level. Managers have to act proactively and creatively in finding the best strategy for their organisation to survive and excel in their market. As the consequence, improvement in purchasing strategy and collaboration with suppliers and customers emerged as one of the most widespread measures.

A conclusion can be made that there is a link between SCM and outsourcing. The implementation of either strategy can also have impact on the other. The implementation of both strategies however needs careful consideration.

2.9 Drivers of Logistics Outsourcing

Of the many factors that may act as driving forces behind outsourcing, globalization of business has been viewed by many as the most prominent. The continued growth in global markets and foreign sourcing has placed increasing demands on the logistics function. Consequently, it has led to more complex supply chains and has involved more transportation and distribution managers in international logistics. Lack of specific knowledge of customs and infrastructure of destination countries forces firms to acquire the expertise of third-party logistics vendors.

The increasing popularity of just-in-time (JIT) principles is another major factor promoting outsourcing. With the shift to JIT delivery, inventory and logistics control have become even more crucial to manufacturing and distribution operations. The complexities and costs of operating in a JIT environment are prompting many of its potential adopters to supplement their own resources and expertise by using sources outside their corporate structure.

Trunick (1989) suggests emerging technology and versatility of third parties as two other important drivers of outsourcing. Since it would be time consuming and expensive to develop and implement new technologies in-house, firms can easily employ those of a third-party. On the other hand, versatility of the third parties enables them to provide an improvement in control, technology, and location, turning fixed costs into variable cost.

Third-party logistics providers have the ability to reconfigure the distribution system to adjust to changing markets or technological advances.

Outsourcing allows the user firm to improve its return on assets by reducing the substantial investment required in warehouse facilities, materials handling, order picking, transportation

equipment, and information technology. This capital in turn, can be invested in those ventures that fall into the core competencies or basic businesses of the user firms.

Utilization of personnel can be more effective since by emphasizing the core business, the productivity of the employees can be greatly improved.

To many firms considering outsourcing, operating costs are the most important consideration. In addition to capital savings, the outsourcer expects the outside facilities to operate at a lower cost or achieve savings that could not be generated internally.

They have the ability to reconfigure the distribution system to adjust to changing markets or technological advances. Small companies tend to be more interesting in third-party use since they are in greater need for expertise and assistance in the area of technology.

In today's environment of error-free, prompt deliveries and unique business and consumer requirements, customer service has to be the most important consideration for any firm. To be able to achieve this, most companies have outsourced their logistics activities to outside companies with the required competencies to offer effective service.

2.10 Advantages of Logistics Outsourcing

The Outsourcing market is estimated to grow tremendously in the coming few years with an increasing number of companies planning to outsource both low end and high end jobs to other establishments. Also the number of companies providing outsourcing services is on the rise, thus resulting in larger variety. Due to the fact that more and more companies are outsourcing, the risks are getting smaller as businesses have more experience and clearer objectives.

According to Panayides *et al.* (2005), logistics significantly contributes to companies' competitive advantage in both effectiveness and efficiency. The most obvious reason behind

logistics outsourcing is that it provides very effective means of reducing costs by contracting with a third-party who can provide better service and high quality at a lower cost. By reducing costs through outsourcing, you gain the ability to improve operating efficiency, increase return on assets, and improve profitability. Outsourcing is also an effective means of generating new revenues. For example, the firm which outsource can contract with a third party to provide products and services which it cannot offer on a profitable basis. This form of outsourcing enables a client firm to test market demand for a service or product in a less risky, more cost-effective way than creating the service internally with scarce resources.

Outsourcing in the world today is seen as a strategic management option rather than just a cost cutting operation. It aids companies to achieve their business objectives through operational excellence and a better market position. In order for companies to focus on their core competencies, all companies today outsource one or more of their operations. In order to compete in the global economy companies need to focus their resources on their core operations.

Many companies today are outsourcing for example their human resource department, their financial department and their marketing department. The benefits of outsourcing thus include professional manpower, cutting-edge technology and cost savings. Through outsourcing companies receive flexibility in decision-making and companies are able to quickly set up or change certain operations or processes depending on the requirements at hand.

There are several marked advantages of outsourcing:

1. **Concentration on core business areas;** Back office operations of a company require high maintenance and specialized attention. Yet most of them are critical for the company's everyday activities. By outsourcing their back office operations businesses can concentrate

on their core competencies while their back office operations are being managed smoothly by a specialized third party company.

2. **World-class technology at lower rates;** Investing in new technology is very costly and often risky. As the technology market develops rapidly, it is difficult to keep up with latest innovations and solutions. Thus outsourcing to companies that have the resources, expertise and desire to continuously update their technological solutions, offers a true advantage of outsourcing.
3. **Skilled manpower at affordable prices;** Outsourcing gives a company the ability to get access to skilled and trained man power at extremely low rates. This in turn leads to an increase in productivity as well as cost savings. By outsourcing a company saves on recruitment, training and other human resource costs it would otherwise have to maintain internally. Also an advantage of outsourcing is that a company is able to utilize the kind of expertise it could not internally provide.
4. **Increased productivity;** By employing skilled manpower in larger numbers at lower costs companies can really increase their productivity. This in turn would result in better customer satisfaction and increased profitability.
5. **Beat Competition;** In today's fast paced global economy a company needs to provide high-quality services to its customers in order to retain them, as well as provide the services for cheap prices. Outsourcing in this case can help the company maintain lower rates with better service solutions, thereby giving them a better market position or even a competitive advantage.
6. **Tax benefits;** By selecting the right service providers, companies can save up on taxes and in turn, saving on costs.

By coordinating production and shipping schedules, outsourcing reduces inventory and improves inventory turnover rate resulting in faster transit times, less damage, and less paper work. Contract logistics also enables firms to respond quickly to marketing, manufacturing, and distribution changes and helps to improve on-time delivery (Richardson, 1995).

Third-party logistics users generally agree that it costs less to use such firms than to carry out the same functions in-house. Logistics being their core business, these firms can lower costs by being more efficient than a manufacturer. Since the use of an outside multiple service provider reduces the needed multiple service contacts for the firm to a single point of contact, coordination costs are also reduced.

2.11 Challenges of Logistics Outsourcing

Although there are several reasons in favor of outsourcing, a company must also consider the disadvantages of outsourcing. There are risks that need to be analyzed whenever a company embarks on a new business venture. Even though outsourcing is often the right solution for companies, one should not outsource simply for the sake of outsourcing. Several benefits and value addition have to be realized in order for companies justify outsourcing. It is a hot trend nowadays and seems an attractive option for many, but if the risks are not considered in detail, the disadvantages of outsourcing may dominate the advantages. Lately however, the concept of outsourcing has been criticized. The negative attitudes toward outsourcing have been mostly discussed by parties in the US and UK, due to job losses in these countries. Some people in the US feel that outsourcing is a threat to their economy. Outsourcing jobs to offshore destinations, is causing unemployment in the minds of some people. It cannot be denied that the immediate effect of outsourcing such as lay-offs as well as the shifting of production and jobs to foreign locations causes problems to many employees.

Both high and low-end jobs are moving out causing people to loose jobs. The needs of companies, national economies and those of individual people often clash.

The disadvantages of outsourcing may include the following:

1. Loss of managerial control, because it is more difficult to manage outside service providers than managing one's own employees working possibly in the same building.
2. Often the hidden costs are difficult to calculate or prepare for. These include legal costs related to putting together a contract between two companies and the time spent to coordinating the contract.
3. Another disadvantage of outsourcing can be a threat to security and confidentiality. If your company is outsourcing processes like payroll, medical transcriptions or other confidential information, a company must be very careful in choosing which process it wants to outsource and to which provider.
4. A possible loss of flexibility in reacting to changing business conditions, lack of internal and external customer focus and sharing cost savings may also be a disadvantage of outsourcing.
5. Other disadvantages of outsourcing may include unfavorable contract lengths, loss of competitive edge, problems in contract renewal, and contractual misunderstanding.

Byrne, (1993); adds that the lack of advanced information technology linking manufacturer, carrier, warehouse, and customer operations has often caused hindrance to contract logistics management.

2.12 Considerations in the Logistics Outsourcing Process

The outsourcing decision is a variant of the classical make/buy decision (Maltz and Ellram, 1997): companies can either invest in building a logistics organization, or they can contract this function out. Heinritz et al. (1991, pp. 161-6) considers factors related to quality, capacity, labour, scheduling and skill to be important in a make-or-buy decision. The firm also needs to determine the benefits of outsourcing according to some criteria, such as, return on assets and include the risk factor in the sourcing decision. Other considerations include fit with corporate objectives; strengths and strategy; social, political and environmental concerns; secrecy and market conditions.

To make use of external logistical services to their greatest benefits, firms must first understand the various types of logistics functions that may be outsourced.

The next step involves the evaluation of these functions to choose the specific ones for outsourcing. Decision-makers need to know how their product and the organization can be affected by outsourcing the logistics function. They need to gain insight into key issues relating to the acquisition of these services. Goldsmith (1989) believes that the best way for a firm to begin to assess its current logistics capabilities and needs is by posing a series of questions.

Some of the key questions are:

- ❖ What are our company's most significant logistics considerations: competitive position? Bottom-line cost? Inventory control of finished goods?
- ❖ Do we have adequate manpower for these functions? Do we have a knowledgeable logistics staff, enough support, and third- party help?
- ❖ Have we made a current cost-benefit analysis of internal staffing versus outsourcing to accomplish our goals?

The answers, or even the process of reviewing these questions, should provide top management with an understanding of the strengths, weaknesses and future needs of its logistics operations. Companies should choose third-party logistics providers by matching up their companies with the essential competencies of the potential logistics service providers (Buxbaum, 1994).

After choosing the logistics function to be outsourced, the firm is required to select from among the prospective vendors. Following this would be the negotiation stage. Some key ingredients in a logistics contract are competitive rates, equipment needs, service standards, extraordinary items, e.g. special handling for products, escape clause to terminate contract, provision for performance reviews, provision for reports, options to extend the length of the contract term or increased pricing and insurance requirements (Richardson, 1993).

2.13 Outsourcing Process Management

The success of an outsourcing arrangement depends entirely on how the entire process is managed. It requires thorough planning right from the beginning, but this is an area that has not been given due importance yet. Whether you are a big corporation or an entrepreneur, you need a systematic framework to manage the outsourcing process. Outsourcing management may be broken into several components. These are areas that need constant attention from both the client and the service provider. These areas are;-

Managing Costs: Cost benefit is the single most important reason to outsource. It does not make sense to either the service provider or the client if they are going to spend more than what they earn. Therefore both parties need to analyze the scope and the pricing before they start on a contract.

Communication Management: Regular communication is vital for the smooth running of an outsourcing deal, right from the negotiation stage. Good communication systems, regular contact, clarity in instructions and feedback, a system for clarifying doubts- these are all important.

Performance: Both quality and adherence to the timeframe matter. The client and the service provider should have systems in place to review performance at regular intervals. The parameters have to be established early on. The progress of the project has to be constantly monitored.

Crisis and Risk Management: Having a back up plan is the ideal way to prepare for risk. This should be ready before the contract is signed. Similarly, both the parties need to be financially and professionally equipped for contingencies.

Knowledge Transfer and Transparency: Both the partners of an outsourcing deal need to have complete information of the project. It also needs regular, close monitoring. This is integral to productivity.

Managing Relationships: Good relationships between the partners make it a lot easier to run a project. It starts with developing good mutual understanding. Transparency from partners, regular communications and some amount of flexibility in the contract- these are all part of a successful outsourcing relationship. Both partners need to be open to reviewing the scope and the pricing of the contract if necessary.

In-house Management: So far only the external aspects of the outsourcing contract have been examined. However getting your own house in order is also important. Both client and vendor

companies need to evaluate their own capabilities and determine the workload distribution.

Another crucial aspect is training the employees to manage the outsourcing arrangement.

Ultimately, a successful outsourcing arrangement has to be one that benefits both client and vendor. The system you choose has to suit the business situation.

2.14 Selection of Third-Party Logistics Providers

There are key criteria which ought to be used in selecting a very good provider. According to Maltz (1995), a proper supplier selection procedure is critical for two reasons:

- ❖ Good procedures will maximize a firm's chances of picking the third-party most suited to its needs.
- ❖ Correct procedures will insure that all stakeholders can contribute to the selection and as a result, accept the final choice.

Hence understanding the characteristics and capabilities of third-party logistics providers appears to be a logical first step in this selection process. An effective selection process uses cross-functional teams to evaluate and review third parties. There should be a constant effort in measuring the performance of the service providers and the firm's entire logistics operations (Foster, 1994).

Some important criteria that are commonly used in the evaluation of third-parties include:

- ❖ Ability to provide highly detailed logistics data proceeding
- ❖ Business arrangements, e.g. incentives for performance, replacement of equipment, etc.
- ❖ Business development, e.g. accounts gained and lost.

- ❖ Business experience, e.g. how long in the third-party business, depth of management experience, the strength of operating management, the quality of work force, etc.
- ❖ Capabilities/competency, e.g. ability to meet the firm's need, provides a variety of services, wide geographic coverage and utilizes specialized equipment.
- ❖ Compatibility of third party's technology and the firm's requirements.
- ❖ Financial stability/strength.
- ❖ High and improving standards, e.g. having a formal quality process.
- ❖ Location, e.g. near manufacturing facilities.
- ❖ Management structure.
- ❖ Opportunities to develop long-term relationships.
- ❖ Support services, e.g. availability of assets and human resources, information and communication systems.

2.15 Negotiating Outsourcing Contracts

To conduct negotiations with the service provider, a smaller team is needed. Negotiation teams should include:

- ❖ Procurement staff expert in dealing with technology vendors
- ❖ Legal staff with contract expertise
- ❖ Outsourcing project manager
- ❖ Senior management
- ❖ Subject area experts brought in to advise the core team as needed (budget staff, technical staff and end users)

Although the actual contract negotiation with potential service providers should begin after

transition plans are made and the negotiation team has concurred on negotiation strategies, contract negotiation occurs whenever anyone in the organization is in contact with a potential vendor. The vendor obtains a great deal of access to organizational information during the negotiation of outsourcing contracts. This access must be recognized in order for the agency to conduct other business agreements, do strategic planning, and work with other vendors.

A service provider who is awarded an outsourcing contract is in the unique position to identify agency strengths/weaknesses and use these observations to benefit the vendor in future negotiations. Service providers will also have many contacts with agency staff. For negotiations to be as successful as possible, all agency staff should be aware of the vendor selection process, and be diligent in directing all questions and inquiries from potential vendors to the negotiation team. These precautions discourage covert information gathering by vendors. Some questions posed by vendors may appear unrelated to current negotiations but are, in fact, attempts to gather valuable information about a pending contract. Some examples of these questions are:

- ❖ How many new or ongoing large projects are occurring within the agency? An answer to this question could give the vendor insight into agency staffing loads and anxiety toward meeting deadlines.
- ❖ Has the agency outsourced any other functions? An answer to this question could give the service provider information on agency negotiation skills and assessment techniques.

2.16 Critical Successful Factors of Logistics Outsourcing

In order to ensure the success of using contract logistics, certain additional factors are to be considered during and after the implantation of the outsourcing process. The first and foremost is that decision to outsource must come from the top. Communication between logistics users and providers, which is essential for the coordination of internal corporate functions and outsourced logistics, is also a very important factor in this respect. Firms need to specify clearly to service providers their role and responsibilities as well as their expectations and requirements.

Internal communication is also equally important. Managers must communicate exactly what they are outsourcing and why, then get the support of every department. Richardson (1990) also emphasizes the importance in educating management of the benefits of contract logistics. Management needs to be convinced to try outsourcing and view it as a strategic activity.

Success of outsourcing depends on a user-provider relationship based on mutual trust and faith. This does not imply that control measures are redundant, firms should mandate periodic reporting by the service providers. Any deal must be tied to internal controls that link all payments to invoices, bill of lading, or purchase orders. A crucial aspect of successful outsourcing linking to trust is that users ought to be willing to part with proprietary information, which can help a capable third party to reduce total logistics costs. On the other hand, service providers have the responsibility and obligation to protect users' sensitive data on products, shipments and customers.

According to Richardson (1990), there are several other critical factors that make outsourcing work. They include focus on the customer, establishing operating standards and monitoring performance against those standards, knowing the payback period, benefits expected by the firm, and the means to achieve those benefits. Factors such as, being aware that outsourcing

may require a longer term of service than the firm is used to and building information systems that will allow the firm to make ongoing cost/value comparisons are also critical. However, for McKeon (1991) understanding each other's cultures and organizational structure to ensure a good match, and knowing logistics strategy, i.e., understanding the logistics function's role in meeting the business objectives of the firm are the most important factors for successful outsourcing. The business objectives of the firm may dictate the extent to which it will use partners, outsource a single function or outsource all key functions.

The importance of the human factor in outsourcing also cannot be undermined. The firm must involve the people currently providing the logistics service since their expertise enables them to facilitate the transition from in-house logistics to third party logistics. Furthermore, they must be given an opportunity to move with the function if outsourcing is implemented, proving how valuable they can be. However, there is the risk that the fear of getting retrenched due to outsourcing of a function may prompt current employees to sabotage the process.

It is evident that, to make contract logistics work, a high level of commitment and resolution is needed on the part of the buying firms. Management must examine critically each of these success factors to determine how they can be put in practice. Only then firms can truly harness the benefits of outsourcing and to develop long-term partnerships that manifest the many advantages that are possible with the use of third-party logistics.

2.17 Managing Logistics Outsourcing Processes

According to Dekkers (2000), outsourcing is not only about decision-making, it also demands control mechanisms which include:

- ❖ Service acquisition,
- ❖ Service provider selection, and

- ❖ Service provider management

Sink *et al.* (1997), proposed a five-step logistics service acquisition model as:

- ❖ The first two steps are mainly to identify needs of outsourcing, develop outsourcing alternatives as different cost scenarios, and make outsourcing decision;
- ❖ Regarding developing outsourcing alternatives, the article only suggested using both internal and external expertise and knowledge but did not provide the mechanism of developing the alternatives;
- ❖ The third step is to evaluate candidates and select service provider. It was emphasized that the selection criteria need to be more rigorous than the traditional distribution or warehousing requirements. Factors like culture compatibility and finance strength were recommended; and
- ❖ The last two steps guided the implementation of outsourcing and the conduction of on-going service assessment. Timely review of cost, qualitative and quantitative assessment, and adequate training and communication were regarded crucial managerial activities. Some other tasks in the last step were to enhance relationship and/or to replace supplier when necessary.

In general, the framework provided detail guidelines to logistics outsourcing around the entire outsourcing “life cycle”. It can be seen that deciding what to outsource, to select service providers, and to measure providers’ performance were regarded essential tasks in the logistics outsourcing management.

2.18 Outsourcing Activities Management

Key managerial activities identified from management frameworks can be grouped into two phases as pre-outsourcing and post-outsourcing.

Pre-outsourcing involves:

- ❖ Identification of needs to outsource;
- ❖ Decision criteria assessment;
- ❖ Development and assessment of feasible alternatives;
- ❖ Evaluation and selection supplier; and
- ❖ Contract negotiation.

Post-outsourcing involves:

- ❖ Project execution and transfer;
- ❖ Ongoing service assessment;
- ❖ Managing relationship; and
- ❖ Contract Termination.

In terms of outsourcing contract management in contract negotiation and contract termination, (Van 1999) applied game theory model to analyze the role of transfer prices and of the bargaining power of buyer and supplier in the outsourcing arrangement.

Rao (2005) recognized that, material and parts suppliers' needs to initiate and enable the contracts with both the buyer (as the outsourcing company) and the outsourcing service providers. He provided an optimal contracting framework that allows integrated analysis and systematic evaluation of trade-offs among all three contracting parties.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY AND PROFILE OF STUDY AREA

3.1 Introduction

The focus of this chapter is on the research methodology of the study. The aim of the study is to assess logistic outsourcing strategy by AngloGold Ashanti Obuasi mine.

The methodology section of a research study describes the procedures that have been followed in conducting the study and the steps involved are described in detail.

Data was derived from both primary and secondary sources. Primary data referred to all data that were gathered from the field through the use of questionnaires, observation and interviews while secondary data refer to data that were gathered from secondary sources such as books, journals, reports, newspapers, and internet among others.

3.2 Research Design

The choice of a research approach depends on factors such as the control the researcher has on the phenomenon being studied, the focus of the study (whether contemporary, historical etc.), the purpose of the study, the time available for the study and the type of data involved. Having considered the foregoing, the case study and exploratory approaches were chosen.

The case study approach was used in this study, since it is best used in the study of contemporary issues. The choice of this approach is based on the fact that the study required multiple sources of evidence and the issue being investigated which in this case is assessing logistics outsourcing strategy by AngloGold Ashanti is a contemporary phenomenon over which the researcher had little control. The case study approach is used because the study

focuses on the issue of various companies who are in engagements with AngloGold Ashanti and the respective strategy involved. According to Kumekpor (2002), the case study method involves procedures and techniques of investigation, usually, but not exclusively or always based on intensive interviewing. This is aimed at enabling the investigator to grasp and understand an individual, a group, a community, a social situation or an issue in order to take decisions that take into consideration the special and peculiar circumstances surrounding the case investigated, or practical solutions relating to the case in question.

3.3 Sampling Method

Since a complete survey could not be undertaken, sample was selected from the various sections of the company. The multi-stage sampling technique, where at every stage of the process a specific sampling method is employed and used for the study, a combination of probability and non-probability sampling methods were employed to make this research scientific. The probability sampling technique that was used is the simple random sampling technique while the purposive sampling and convenience sampling techniques were the only non-probability technique employed.

Also, in purposive sampling, also known as judgmental sampling, the researcher purposely chose subjects who in their opinion are thought to be relevant to the research topic. In this case the judgment of the investigator is more important than obtaining a probability sample. Purposive sampling is often used when the researcher wants a sample of experts as in the case of a need assessment using the key informant approach.

The sample size for the entire study was 14. In all, AngloGold Ashanti Obuasi Mine engages the services of six (6) service providers, the target respondents were two management staff from each of the companies involved and two management staff from AngloGold Ashanti Mines with particular attention on the contract officer and the one in charge of outsourcing.

The reasons behind this is that, according to Patton (2002 cited in Saunders et al, 2007) stated that, the sample size for non-probability sampling in business research is dependent on the research questions and objectives in particular, what is needed to find out, what will be useful, what will have credibility and what can be done with available resources. It is therefore, the logical relationship between the sample selection techniques and the purpose and focus of the research that is important, generalizations being made to theory rather than population. This means that, it is the quality of the theoretical inferences that can be made from data collected using non-probability samples that is used to assess the extent to which generalizations can be made. This is the basis of the justification of the sample size chosen for the study.

3.4 Data Sources and Collection Methods

Data for the study were obtained from two main categories; Primary and Secondary sources. Primary data here refers to all data that were gathered from the field through the use of questionnaires; observations and interviews while secondary data refers to data that was gathered from secondary sources such as books, newspapers, journals, and the internet among others. A comprehensive literature from both published and unpublished sources were reviewed for the areas relevant to the study. These form the theoretical and conceptual basis of the research and were mainly contained in the Chapter Two of the study. The sources of the data and information to this effect were from the library, the Internet, papers, articles, lectures, newspapers and other reports relevant to the study.

The main tools used in collecting the primary data were questionnaires, interview guides and in some instances observations. These were used for the institution and service provider's survey. Data questionnaires contained both open and close-ended questions to collect both qualitative and quantitative data. The open-ended questions were used where a wide range of responses are anticipated. This was to maintain the originality and intensity of responses. The close ended questions were used so that they induce respondents to answer only in terms of alternative responses. These forms of questions were asked where they were most advantageous for example to collect data in cases where the range of possible answers can be anticipated or assumed. Interviews were used in collecting primary data because it is a social process or conversation between the respondent and the interviewer.

3.5 Units of Analysis

Units of analysis are the actual empirical units, objects, occurrences, etc, which must be observed or measured in order to study a particular phenomenon (Kumekpor, 2002). It is the most elementary segment of the phenomenon to be studied. It is the smallest unit around which data for the study were gathered and it must be related to the scope of the research, the problem being investigated and the kind of generalization to be made as well as be reproducible for double-checking. According to Kumekpor (2002), the units of analysis need to focus attention on measurable units which in this study are the service providers who are partners in logistics outsourcing with AngloGold Ashanti. The units are susceptible to comparison, thus, they must be of like order where similarities or homogeneity is critical.

3.6 Analytical Tools

The qualitative technique is in the form of comprehensive statements and analytical descriptions, taking into consideration the responses provided to interview and questionnaires. The quantitative technique is mainly based on diagrams like graphs, tables and percentages. The kind of data gathered and the variables involved allowed the use of only primary level analysis. Data was analyzed straight forward based on variables in the questionnaire without any form of cross tabulation among the variables. Tables, charts and statistical values such as percentages were thus the main analytical tools implored for interpretation of data and analysis. Comparisons in the data were made from secondary sources where appropriate.

3.7 Data Processing, Editing and Analysis

In terms of data processing, a number of techniques were used. Data obtained was edited, coded and then tabulated. Editing was done with the aim of detecting and eliminating error to ensure clean and reliable data. Coding was also done by classifying questions into meaningful categories in order to bring out essential patterns to inform research questions posed. Data was then presented in the form of tables and chart to facilitate the analysis.

In terms of data analysis, both the quantitative and qualitative techniques were used. Data desegregation and statistical application techniques were used in analyzing responses. The reason for the combination of techniques was to ensure that the generalization would be based on credible and reliable means of analyzing data from the field. The SPSS software was used in analyzing the data obtained from the field.

3.8 Profile of Ashanti Goldfields Company Limited

In 1897, an English company named Ashanti Goldfields Corporation Limited (“AGCL”) was founded and began to develop a mining concession in the area of Ashanti’s current operations at Obuasi. Several years later, underground mining began at it’s site and has continued to the present. In 1969, AGCL became a wholly-owned subsidiary of Lonrho Plc, now called Lonmin, a UK listed company which at the time had interests in mining, hotels and general trade in Africa. Following the Lonmin acquisition in 1969, the Government acquired 20% of AGCL from Lonmin in exchange for the Government’s agreement to extend the term of the AGCL mining lease over the concession area.

By legislation enacted in 1972, the Government formed Ashanti to take over the assets, business and functions formerly carried out by AGCL. The Government then held an interest in 55% of Ashanti’s outstanding shares, with Lonmin holding the remaining 45%.

In 1994, as part of its divestiture policy, the Government sold part of its holding in Ashanti in a global offering. In connection with that offering, Ashanti was reorganised as a Ghanaian public limited company. The Government also retained its “Golden Share” in Ashanti, a special rights redeemable preference share, pursuant to which the consent of the Government is required, amongst other things, for certain significant transactions. The Government owned approximately 16.8% and Lonmin owned approximately 27.4% of Ashanti Shares.

In 1996, Ashanti expanded its operations through the acquisition of companies holding interests in the Ayanfuri, Bibiani, Iduaprem, Siguri, and Freda-Rebecca properties, which were already or were subsequently developed as mines, and acquired an interest in what was then the Geita exploration concession in Tanzania. In 1998, Ashanti acquired SAMAX Gold Inc., the principal asset of which was the remaining interest in the Geita exploration concession

adjacent to Ashanti's existing licence area. In 1999 and 2000, Ashanti acquired its interest in the Teberebie mine, which is adjacent to the Iduaprem mine.

3.9 Profile of Anglogold Ashanti Limited

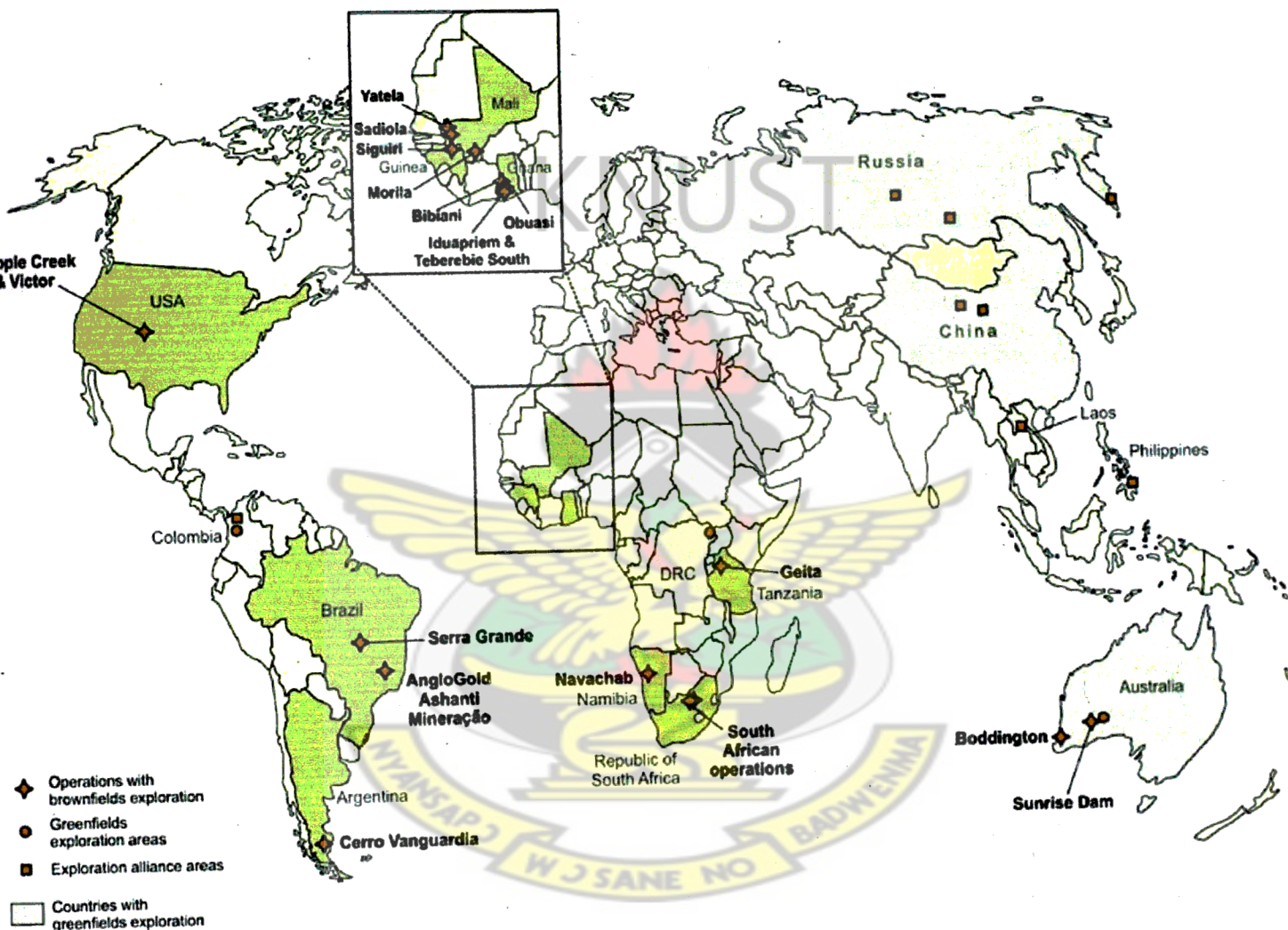
AngloGold Ashanti was, until 26th April, 2004, two separate organisations, Ashanti Goldfields Company Limited (AGC) of Ghana and AngloGold, South Africa. Ashanti Goldfields Company Limited's (AGC) business of gold exploration, mining and processing started with underground operations in 1896 and later surface operations in 1988 both in Obuasi. By the year 1993 the surface operations had spread to include Ayanfuri near Dunkwa, Bibiani and Iduaprem near Tarkwa.

Under the able leadership of its Chief Executive, Mr. Sam Esson Jonah, AGC was listed on the Ghana Stock Exchange and had acquired mines in Zimbabwe, Mali and Guinea by the year 1998, with headquarters in Accra, Ghana.

Ashanti's fortunes over the years resulted from sale of its gold based on spot price as well as forward sales through hedging. However, failure to continually examine its hedge books and take the appropriate action resulted in heavy indebtedness to its creditors which nearly brought the company on its knees in the year 2000. With no financial help coming from the government of the day and to salvage the situation, Ashanti Goldfields Company Limited (AGC) was compelled to enter into a 50-50 joint venture with AngloGold, South Africa, in its new mine in Geita, Tanzania. This arrangement resulted in AngloGold bailing Ashanti Goldfields Company Limited (AGC) with adequate amount to service its debts. By the year 2001 Ashanti Goldfields Company Limited (AGC) was faced with the dilemma and challenge of finding resources to tap gold from its rich underground deeps since the grade (quality) of its shallow underground ore was reducing to near non-economical values. This resulted in

Ashanti Goldfields Company Limited (AGC) eventually merging with AngloGold South Africa in April, 2004, to become AngloGold Ashanti (AGA).

Figure 1: Map of Areas Covered by AngloGold Ashanti Limited (AGA) Operations



Following the merger, AngloGold Ashanti Limited has become a global gold producer with 21 operations on four continents, a substantial project pipeline and an extensive, worldwide exploration program. The company is listed on the New York, Johannesburg, Ghanaian, London and Australian stock exchanges, as well as Paris and Brussels bourses.

AngloGold Ashanti is committed to continuously improving the performance of current assets through cost management and increased labour productivity, as well as by seeking out value-adding growth opportunities through exploration and a disciplined acquisition strategy. The company is focused on generating competitive financial returns and on rewarding shareholders with semi-annual dividends after providing for future growth.

Source: [www. Anglogoldashanti. Com](http://www.Anglogoldashanti.Com).

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CHAPTER FOUR

4.0 ANALYSIS OF FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis, results and discussions. In all, two sets of questionnaires were analyzed; one set for AngloGold Ashanti management and the other for the third party logistics companies contracted by AngloGold Ashanti, it also includes responses from interviews that were conducted during the survey.

The majority of the area concerned with the chapter includes conditions that drives AngloGold Ashanti to outsource, activities typically outsourced, selection criteria of service providers, benefits and pitfalls associated with outsourcing, and the factors that lead to outsourcing success.

4.2 Data Analysis and Discussions from Management Perspective

The most underlying principle cited by Anglogold Ashanti management for outsourcing their logistics activities to third party companies are cost reduction and service improvement prospect from outsourcing. In addition to cost and service, a number of other factors were cited as reasons AngloGold Ashanti considered in outsourcing their operations. These factors include:

1. Opportunities to focus on core competencies
2. Upgrade information technology (IT) capabilities
3. Leverage supply chain management
4. React to changes in the regulatory environment
5. A need for expertise
6. Globalization of business

7. Complexities of operating in a just-in-time (JIT) environment

From the survey conducted, it was revealed that these factors prompted management into considering outsourcing its functions:

- ❖ Corporate restructuring
- ❖ Changes in logistics management
- ❖ Market and product line expansions
- ❖ Customer use of Just-In-Time or Quick Response
- ❖ Labor costs/problems
- ❖ Instituting a quality improvement program; and
- ❖ CEO's directives to investigate the feasibility of outsourcing. It was noted that most of these trigger events concern changes to the external and internal environment of companies.

4.3 Strategies Adopted by AngloGold Ashanti in Outsourcing Their Logistic Activities

AngloGold Ashanti is using the prescriptive model strategy which is focused on systematic approaches in selecting and evaluating third-party logistics providers. This strategy embodies five-step procedures that need to be followed in contracting a third-party logistics provider.

The five steps were given as:

1. Identify need to outsource logistics beginning with recognition of outsourcing as an option, this involves setting objectives for outsourcing and establishing service providers selection criteria.
2. Develop feasible alternatives (make/buy analysis),
3. Evaluate and select service provider, this aspect involves request for bids and bid evaluation and selection based on the selection criteria stated.

4. Implement/contract service provider, and
5. Ongoing service assessment leading to an enhanced relationship with or replacement of a provider. This includes performance measurement of third-party Company, with the possibility of revisiting goals and provider capabilities resulting in a return to the earlier stage.

It was also indicated that, this strategy provides a feedback mechanism between steps to allow for the possibility that for some service providers, the process can end in termination, re-tendering, or renewal of the contract or even bypassed depending on the kind/type of services rendering. Nevertheless, this strategy is prescriptive in nature, it provide a "*managerial framework for the acquisition of third-party logistics services*".

4.4 Names of Service Providers and the Functions Provided to AngloGold Ashanti Obuasi Mine

During the survey, it was disclosed that, AngloGold Ashanti Obuasi Mines has contracted the services of six (6) third-party logistics companies providing services ranging from transportation, inventory management and constructional work.

These service providers and their functions to AngloGold Ashanti are tabulated in table 1 below.

Table 1: 3PL companies and their functions to AngloGold Ashanti

NAME OF SERVICE PROVIDER	FUNCTIONS PROVIDED
MINING AND BUILDING CONTRACTORS (MBC)	Undertake developments underground for mining.
WEIR WARMAN	1. Supply of pumps. 2. Holding and management of inventory for the repair of pumps
O. A. TRAVEL AND TOURS	Provision of buses for transporting workers in and out of work
AFRICAN EXPLOSIVES LIMITED (AEL)	Supply of explosives for blasting rocks underground
ATLAS COPCO	1. Supply and sale of mining equipment such as Wagners, and jumbo drilling machines. 2. Holding and management of inventory for the repair of these machines.
FORCE FIVE ENGINEERING	Structural and equipment maintenance and refurbishment

Source: author's construct, 2009

4.5 Major Benefits of Logistic Outsourcing to Anglogold Ashanti

The benefits of outsourcing to AngloGold Ashanti include transfer of proficient manpower, technological advancement and cost savings. Through outsourcing, AngloGold Ashanti has

achieved flexibility in decision-making and are able to rapidly set up or revolutionize certain operations or processes depending on the requirements at hand.

In addition to this, the attention was also drawn to the problems created, and was revealed that, prior to the implementation of the outsourcing process, a good number of employees were laid off, some of the people who were laid off feel that outsourcing is a threat to the livelihood. It cannot be denied that the immediate effect of outsourcing such as lay-offs as well as the shifting of production and jobs to organisations causes problems/ disturbances to employees.

4.6 Data Analysis and Discussions from Service Providers Perspective

As indicated in 4.1 above, stating how this chapter is structured, this section of the report entails the analysis and discussions from the viewpoint of the service providers who are contracted by AngloGold Ashanti Mine. Among the discussions here includes how they (3PL) are benefiting from their dealings with Anglogold Ashanti and how their complaints are handled. It also includes the rationale behind outsourcing and the challenges encountered as a third party logistic company. A comprehensive detail is presented below.

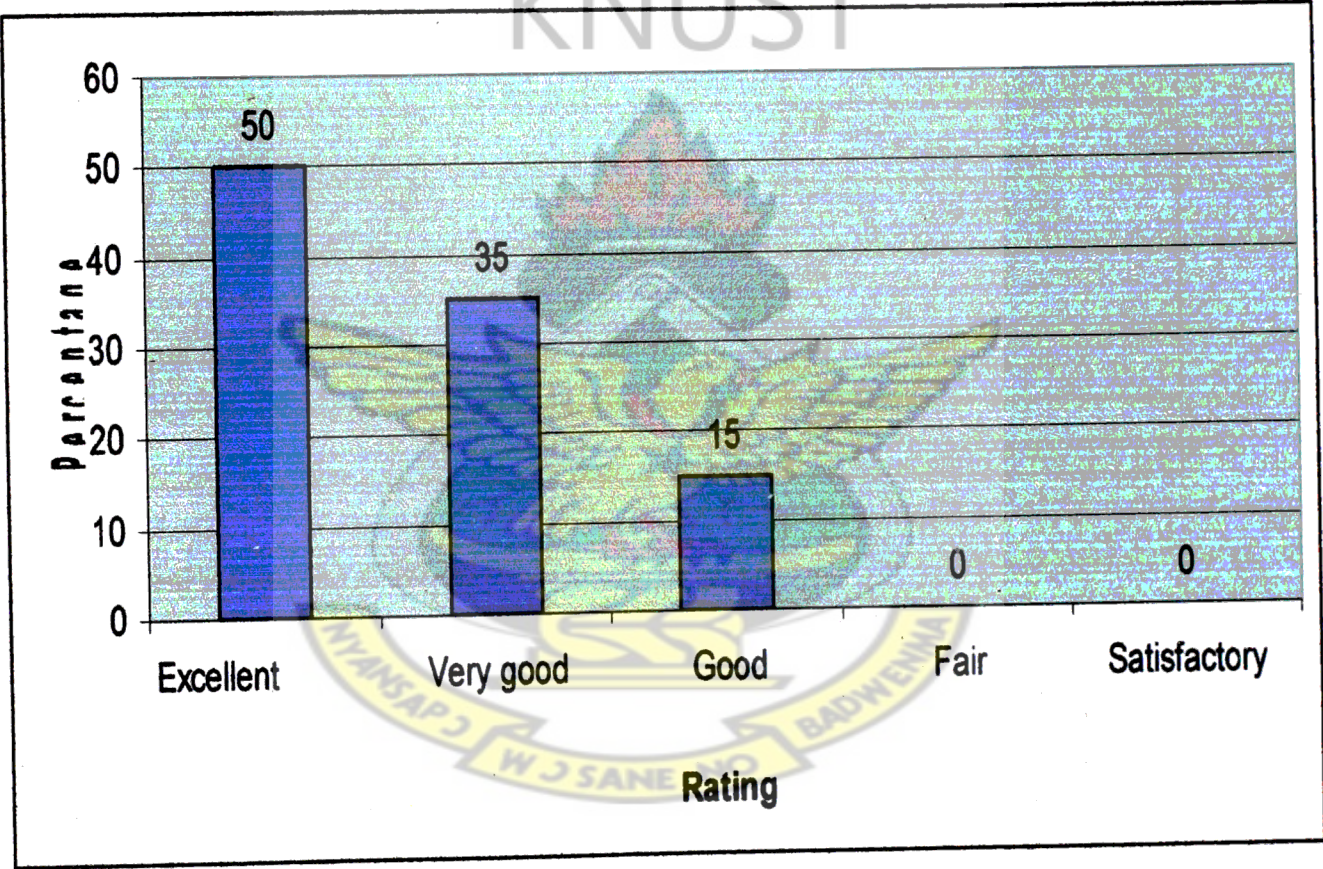
4.7 How Does Anglogold Ashanti Management Handle Complaints of 3pl Companies

Outsourcing Activities

As human institution is some times characterised by some margin of errors, it is for the same reasons why, most institutions establish complaints desk where problems confronting clients are reported for immediate attention and solution. The continuity of every company and institution to a larger extent depends on the kind of relationship existing between the two parties and remarks which are often expressed by customers. It also became imperative to assess the performance of AngloGold Ashanti from the view point of service providers. 3PL

companies studied though agree that, the way AngloGold Ashanti handle their complaints is excellent with a percentage of 50%. This could be attributed to the continuous improvement of services and skills through training and professionalism. From the figure 2 below, it can be seen that, though the way complaints are handled are very encouraging , they can enhance or accelerate the pace at which to attend to these complaints.

Figure 2: How Complaints Are Handled By AngloGold



Source: author’s construct, 2009

4.8 Number of Years in Dealing with AngloGold Ashanti

Most of the 3PL companies interviewed have had a working relationship with AngloGold Ashanti for a least 4 years and more continuous transaction. This could be mainly attributed to

the quality of services rendered and the professional way of handling complaints by officials of AngloGold Ashanti Mine.

Table 2: number of years in dealing with AngloGold Ashanti

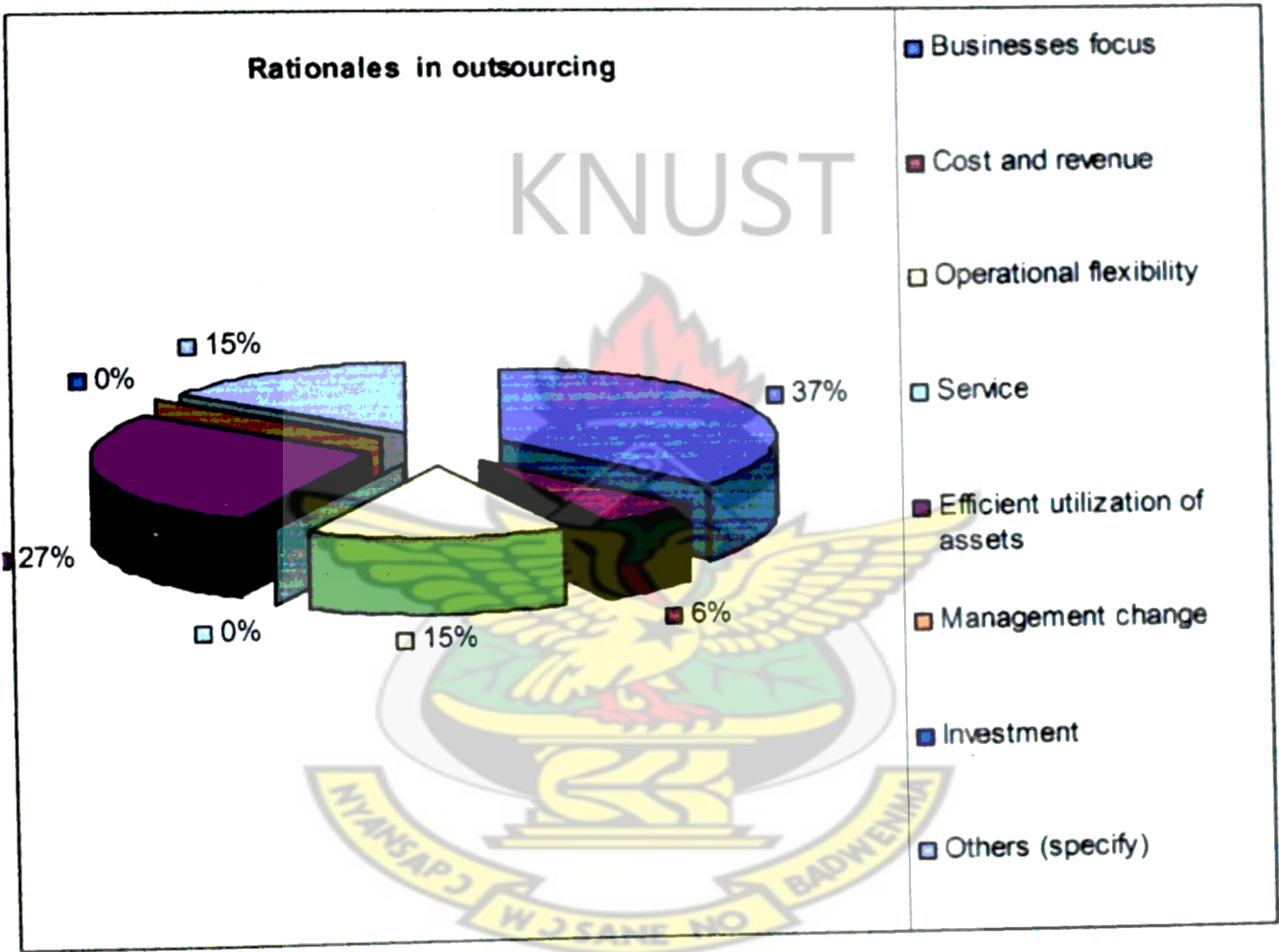
Number of years	Frequency	Percentage
Less than one year	0	0
One year	0	0
Two years	2	15
Three years	0	0
Four years	4	35
Five years and more	6	50
Total	12	100

Source: author’s construct, 2009

It was also revealed that, most of the service providing firms attributed the rationales for these outsourcing activities on business focus, operational flexibility and efficient utilization of assets.

Below is figure 3 showing the rationales assign by 3PL companies for engaging with AngloGold Ashanti.

Figure 3: Rationale Behind Outsourcing As A Third Party Company



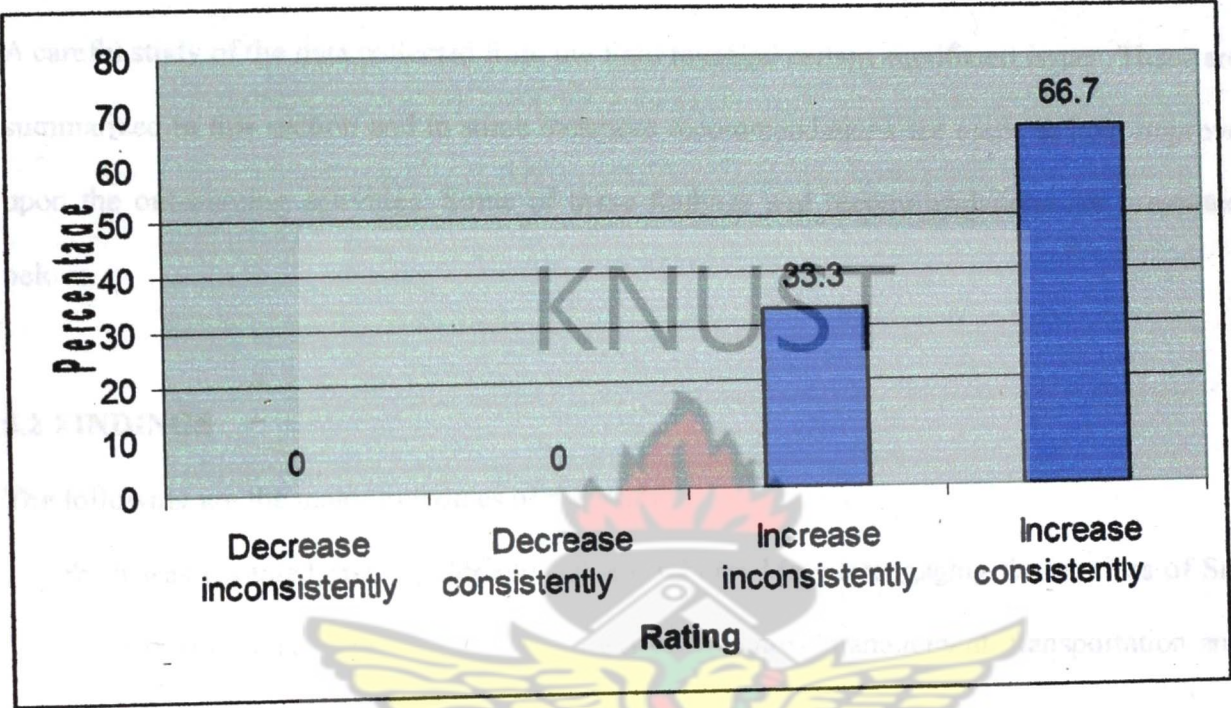
Source: author's construct, 2009

4.9 Profitability and Growth Rate

The survey also considers how service providers are making progress in their activities with respect to growth and profitability and it can be observed from figure 4 that, almost 70 percent of the service providers indicated of an increase in their profit margin and growth rate

consistently over the years. This revelation is an encouraging factor to both AngloGold Ashanti and the service providers to strengthen their operations and relationships as well.

Figure 4: profit and Growth Rate



Source: author's construct, 2009

4.10 Difficulties in Dealing with Anglogold Ashanti as an External Company

The survey conducted depicts that service providers really benefit from outsourcing due to their operational flexibility, utilization of human resources, the information system adopted and efficient delivery of services based on systematic procedures in handling complaints.

Despite the numerous advantages in dealing with AngloGold Ashanti there are certain difficulties that hinder the smooth operation of the service providers. These include; short deadlines, unfavorable contract lengths, loss of competitive edge, problems in contract renewal and contractual misunderstanding.

CHAPTER FIVE

5.0 SUMMARY OF MAJOR FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

A careful study of the data collected from the field revealed certain significant issues. These are summarized in this section and in some instances recommendations are made to help improve upon the outsourcing activities. Some of these findings and recommendations are presented below.

5.2 FINDINGS

The following are the major outcomes of the study:

- ❖ It was revealed that, AngloGold Ashanti Obuasi Mine is engaging the services of Six (6) major service providers in the areas of inventory management, transportation and constructional work.
- ❖ It was also indicated that, the rationale behind outsourcing of logistics activities to third party companies by AngloGold Ashanti management are mainly centered around cost reduction, service improvement prospect and the opportunities to focus on their core competencies.
- ❖ It was also pointed out that, AngloGold Ashanti is using a Prescriptive Model strategy which is focused on five systematic procedures in selecting and evaluating third-party logistics providers. This strategy provides a feedback mechanism which can result in termination, re-tendering or renewal of the contract based on the kind/type of services rendering.
- ❖ It was further revealed also that, most of the service providers have had a working relationship with AngloGold Ashanti for more than five years, this was as a result of

the quality of services rendered and the professional way of handling grievances by officials of AngloGold Ashanti Mine.

5.3 RECOMMENDATIONS

It is unlikely that every aspect can comprehensively be dealt with within the confines of this study. However, several linkages can also be established in order to identify core objectives. In order to enhance the implementation of the outcome of the survey, the following recommendations are to be considered:

- ❖ Management of AngloGold Ashanti Mine should indicate in their budget statement, the proportional percentages for each of the functions given out to service providers, this in a way will help check their expenditure pattern.
- ❖ In the same way, on-going impact assessment mechanism should be established by management so that the outcome will inform policy formulation. Impact assessment could be carried out regularly (for example, every 2-3 years). This will help test how service providers are progressing after each cycle of the operation.
- ❖ Since in some cases, the type/kind of services to be outsourced may be monopoly in nature, it is recommended that AngloGold Ashanti should be a little flexible or bypass the systematic strategy to save time and ensure prompt delivery of services.

5.4 CONCLUSION

The reality of competing in a global supply chain environment has caused many organizations to focus on strategic renewal and creative solutions to manage and mitigate the risks of operating in today's dynamic marketplace. The world wide trend in globalization has led many companies to outsource their logistics functions to third-party (3PL) companies, so as to focus

on their core competencies.

More than ever, the understanding of the logistics outsourcing process is important to fully capture the role and value of logistics in corporate strategy and competition.

However there are challenges like risk of becoming dependent on service providers and loss of managerial control, because it is more difficult to manage outside service providers than managing one's own employees working possibly in the same environment.

Managing outsourced operations is by no means the same as managing internal resources, the focus of attention is different and the two call for different managerial skills. Outsourcing management should involve monitoring contract terms and relationships rather than dealing with subordinate staff and systems, it means monitoring performance and results with an emphasis on outcome.

In conclusion, the negotiation of contract will turn out best if the parties make every attempt to understand each others cultures, goals, strengths, weaknesses and long term interests thus, intention must become reality.

5.5 FURTHER RESEARCH

AngloGold Ashanti Obuasi Mine has recently outsourced some operations of its Assets protection department to private security organizations. It is recommended that research be conducted into the operations of these security organizations to ascertain their impact on the operations of AngloGold Ashanti Obuasi Mine.

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Appendix 1

SCHOOL OF BUSINESS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE FOR MANAGEMENT

Project title: ASSESSMENT OF LOGISTICS OUTSOURCING STRATEGY, A CASE OF
ANGLOGOLD ASHANTI OBUASI MINES

Name of respondent: sex:

Position of respondent:

Name of interviewer: Date:

1. Why have you taken to outsource some of your operations to external service providers? Is it related to: (Please tick)

- | | |
|--|--|
| <input type="checkbox"/> Concentration on core business areas | <input type="checkbox"/> World-class technology at lower rates |
| <input type="checkbox"/> Skilled manpower at affordable prices | <input type="checkbox"/> To increase productivity |
| <input type="checkbox"/> Beat Competition | <input type="checkbox"/> Tax benefits |
| <input type="checkbox"/> Others, please specify | |

2. What strategy is adopted by AngloGold in outsourcing some of their operations?

a).....

b).....

c).....

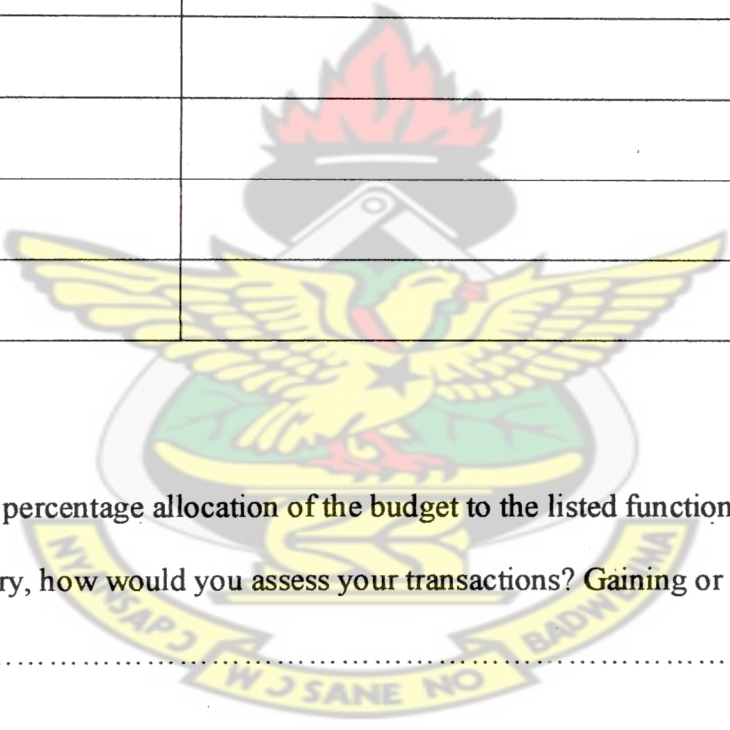
3. What are some of the activities that are outsourced by AngloGold? Please list them

.....

.....

.....

4. List the names of service providers and the functions they provide to AngloGold

Name of Service Provider	Functions they Provide
1.	
2.	
3.	
4.	
5.	
6.	

5. Looking at the percentage allocation of the budget to the listed functions and the services delivery, how would you assess your transactions? Gaining or losing, explain

.....

.....

6. What are some of the major benefits that can be attributed to outsourcing some of your operations? (Please tick)

- ☐ Business focus
 ☐ Cost and revenue
 ☐ Operational flexibility
- ☐ Efficient utilization of assets
 ☐ Management change
 ☐ Investment
- ☐ Others(specify)

.....

8. What are some of the challenges/ problems encountered in dealing with these external organisations?

.....

.....

.....

9. What aspect of logistics outsourcing management/activity needs to be improved?

.....

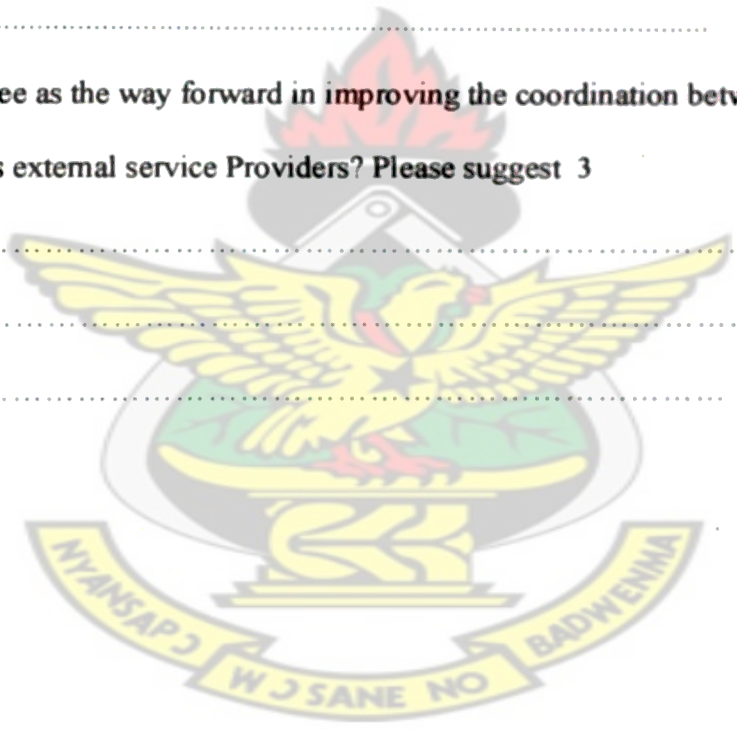
.....

10. What do you see as the way forward in improving the coordination between AngloGold Ashanti and its external service Providers? Please suggest 3

a).....

b).....

c).....



Appendix 2

SCHOOL OF BUSINESS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE FOR 3PL COMPANIES

Project title: ASSESSMENT OF LOGISTICS OUTSOURCING STRATEGY, A CASE OF
ANGLOGOLD ASHANTI OBUASI MINES

Name of respondent: sex:

Position of respondent:

Name of interviewer: Date:

1. What kind of relationship does your organization have with AngloGold Ashanti Mines?
Please specify

2. How long have you had a business relationship with AngloGold Ashanti Mines?

<input type="checkbox"/> Less than one year	<input type="checkbox"/> One year	<input type="checkbox"/> Two years	Three
<input type="checkbox"/> years	<input type="checkbox"/> Four years	<input type="checkbox"/> five years and more	

3. As a third- party logistics company, what is the rationale behind logistics outsourcing activities by your company: It is related to;

<input type="checkbox"/> Businesses focus	<input type="checkbox"/> Cost and revenue	<input type="checkbox"/> Operational flexibility
<input type="checkbox"/> Service	<input type="checkbox"/> Efficient utilization of assets	<input type="checkbox"/> Management change
<input type="checkbox"/> Investment	<input type="checkbox"/> Others (specify)	

4. Does outsourcing of logistics activities benefit your company as a third- party logistics company? ☐ Yes ☐ No

Why? Please give reason

.....

5. What has been your profitability and growth rate on logistics outsourcing for the past 5 years? (Please tick as appropriate).

☐ Increase consistently ☐ Decrease consistently
☐ Increase inconsistently ☐ Decrease inconsistently

6. Is management actively engaged in improving Logistics outsourcing activities?

☐ Yes ☐ No

7. What aspect of logistics outsourcing management/activity needs to be improved?

.....

.....

8. How does AngloGold Ashanti Mines Company handle your complaint in terms of logistics outsourcing activities rendered to them?

☐ Excellent ☐ Very good ☐ Good ☐ Fair ☐ Satisfactory.

9. What difficulties do you encountered as a 3PL company in dealing with AngloGold Ashanti?

.....

.....

10. What measures have you taken to overcome these difficulties?

.....

.....

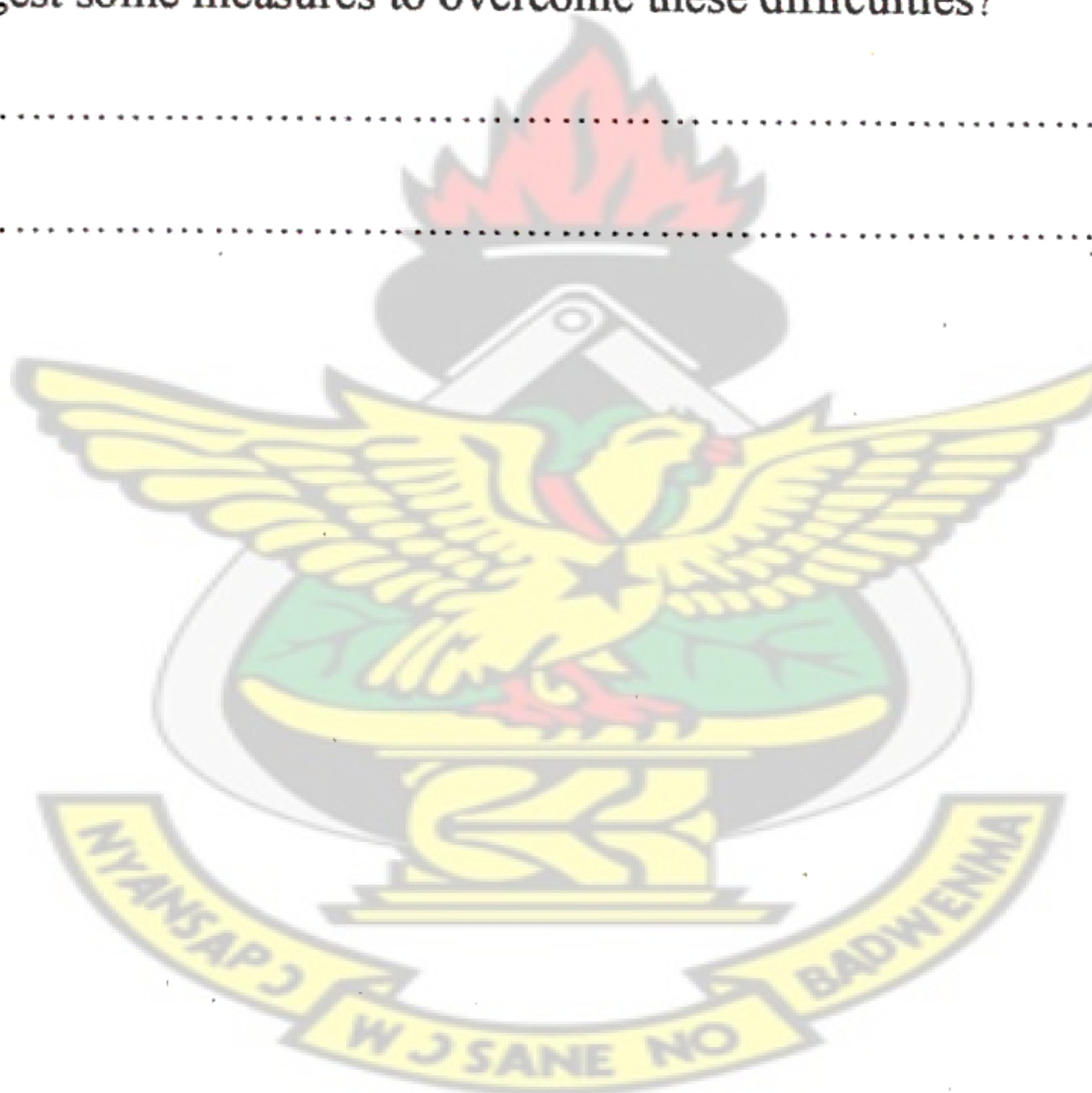
11. What makes your company have a competitive advantage over others?

.....

12. Could you suggest some measures to overcome these difficulties?

.....

.....



Appendix 3

Table 3: Rationales for Outsourcing

	Frequency	Percentage
Businesses focus	12	37.5
Cost and revenue	2	6.25
Operational flexibility	5	15.62
Service	0	0
Efficient utilization of assets	9	28.13
Management change	0	0
Investment	0	0
Others (specify)	4	15.5
Total	32	100

Table 4: How Complaints Are Handled By AngloGold

Rating	Frequency	Percentage
Excellent	6	50
Very good	4	35
Good	2	15
Fair	0	0
Satisfactory	0	0
Total	12	100

Table 5: Profitability and growth Rate

Rating	Frequency	Percentage
Decrease inconsistently	0	0
Decrease consistently	0	0
Increase inconsistently	4	33.3
Increase consistently	8	66.7
Total	12	100

