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Investigating Subcontractor's Performance on the Quality of Service: Case Study of Total Petroleum Ghana Limited

Prince Kelvin Owusu
Ghana Technology University College
Information Systems Department

Gyekye Ernest Yeboah
Total Petroleum Ghana Limited
Engineering Department

Abstract: The survival of companies, especially in a competitive industry, is to find sustainable means of ensuring competitive advantage through its operations. The practice of focusing on core competences and getting external resources to perform non-core functions is known as outsourcing. In this research, the strategic choice of outsourcing in the oil and gas industry was investigated. The influence of contracts, supervision, and innovation on outsourcing, with its consequent impact on organizational performance were also examined. The qualitative study aggregates the experiences, opinions, and culture of outsourcing in the oil and gas industry, using Total Petroleum Ghana Limited (TPGL) as a case study. Management perspective, experience of supervisors and the feedback from internal customers were gathered to provide an insight into the subject. The influence of contracts, supervision, and innovation on the performance of service providers are investigated.

From the research, the major driver for outsourcing in the oil and gas industry is to access best in class expertise and concentrate of core competences. The outcome of the research emphasized on the importance of contracts to facilitate the roles technical supervisors. For works whose frequency could not be predetermined, a fixed rate instead of the contract would be ideal. Internal customers also highlighted the need for equipment to be readily available and bemoaned the abysmal performance of some service providers. The inability of service providers to also commit resources to their roles was influenced mainly by their contracts with the buyer company.

It was concluded in this research that the performance of service providers was influenced by contracts, supervision, and innovation. The performance of service providers also had an impact on operational performance. For improved vendor performance, it was recommended that the practice of contracts, supervision and relationship management needed to be redefined. A formalized short-term contract will help with performance reviews. Also, a dedicated relationship manager will have a focused impact on all parties to the outsourcing arrangement.

I. Introduction

The phenomenon of outsourcing has become very important in strategic management and for the survival of a 21st century company, that needs to be flexible to remain competitive. Contemporary literature has characterized the drivers of outsourcing as the supremacy of intangible assets such as knowledge and skills, fragmentation of the value chain to focus on core competencies, the need for more relational than transactional management of relationships to unlock markets and the flexibility of meeting changing and increasing customer demands, with efficient processing(Popoli, 2017).

The business world has witnessed the economic phenomenon where manufacturing processes by many well-known brands in developed countries have been transferred to developing countries; an action that is believed to be in response to the rising cost of production concomitant to the rising standards of living and remuneration in developed countries(Troaca & Bodislav, 2012). The business practice of outsourcing continues to enjoy the attention as its practical implementation also increases. The complex structure of outsourcing has given rise to various administrative and managerial quandaries(Vaxevanou & Konstantopoulos, 2014). By doing what companies do best and outsourcing the rest, as advocated by Peter Drucker, companies are able to free up resources and focus on delivering quality products and services. This practice has been used by many as a tool for competitive advantage by letting out operations for which it has less internal expertise or resources to companies that are able to do same cheaper and better. It is popular that an increase in a firm's internal focus on the core business through outsourcing results in the improvement of performance of the firm, as well as increased market share(Issakson & Bjorn, 2015).For an industry that is vulnerable to global oil prices and production, outsourcing is a major strategic alternative to improve the revenues of oil companies.

The oil marketing industry is an industry with heavy laden engineering activities that underline their operations. From the construction of network stations, safe distribution of highly flammable petroleum products and the retail of same to the public, the industry thrives on other disciplines to successfully market their products. A rationalization of the activities of an oil marketing company (OMC) in Ghana leads to the outsourcing of aspects of their operations that are not directly in line with its core functions, marketing petroleum products. In Ghana, many OMC's around 2006 restructured by laying off engineering staff and contracting third parties. This was to enable OMCs align all resources to their core mandate. Although the decision to outsource relays some responsibilities from the buyer company to the service company, it also leaves most organizations at the mercy of service providers. Service companies assume great responsibility due to the nature of products being handled and capital investments required by most OMCs.

Several researchers have examined the outsourcing relationship between buyer and service companies and their influence on organizational performance. This research seeks to evaluate how outsourced activities could be managed to enhance customer satisfaction and the overall performance of the organization. This research would serve as a valuable resource for policymakers and stakeholders in finding solutions to the challenges that arise from the changing nature of work. It looks at how to foster a good outsourcing relationship between buyer and service companies; in the case study of Total Petroleum Ghana Limited (TPGL).

II. Problem Specification

Total Petroleum Ghana Limited is an affiliate of the global Total Group (the fourth largest publicly traded integrated international Oil and Gas Company in the world).With operations that have spanned over 60 years in Ghana, the company has undergone several acquisitions and mergers. These transformations coupled with values for safety and quality has contributed to the brand it commands in the oil marketing industry (Total Ghana, n.d.). The statistics as at December 2013 showed Total as the leading market share holder with 14 % of the entire market with its closest competitors, Shell and Goil, having12% and 11% respectively (Boadu, 2016). Statistics from the National Petroleum Authority on the performance of oil marketing companies (OMCs) for2017 shows TPGL as the third market shareholder with 11%(National Petroleum Authority, 2017); a decline from the first to the third best market shareholder in the industry in four years. Although other factors may have contributed to the decline in the market share of TPGL from 2013, such as marketing decisions and industry challenges, the operational performance of the company could be accessed to determine how that contributed to the decline. With a high number of outsourced operational activities such as the maintenance of network equipment (example fuel dispensers, generators, electrical installations etc.) and distribution of petroleum products, the impact of the performance of service providers on the company's performance is imperative.

Generally, new entrants into the oil marketing industry has seen the market share of the top three OMCs in Ghana drop marginally. This research seeks to explore the influence of outsourcing of the performance of TPGL as an oil marketing company.

Although research on the impact of outsourcing on performance is limited in Ghana, researchers globally have had several dimensions to the discourse.

Aim

The main aim of this research is to investigate outsourcing on the organizational performance of Total Petroleum Ghana Limited.

1.3.2 Specific Objectives

The specific objectives of the research are:
To investigate the impact of contracts on the performance of outsourced services.
To investigate the impact of supervision on the performance of outsourced services.
To investigate the impact of innovation on the performance of outsourced services.
To investigate the impact of outsourcing on organizational performance.

1.3.3Research Questions

The research, in the case of TPGL, is desired to answer the following questions:
How does contracts influence the performance of outsourced services?
How does supervision influence the performance of outsourced services?
How does innovation influence the performance of outsourced services?
What is the impact of outsourcing on organizational performance?

III. Significance of Study

The growing trends of outsourcing emphasizes the need for organizations to make better outsourcing decisions. An evaluation of how the various factors that influence the performance of suppliers and service providers will be evaluated to find their impact and the organization as whole. Such information will help TPGL as well as other industry player to adopt better outsourcing relation management plans. In a keenly competitive industry, an understanding of the outsourcing relationship and factors that influence the performance of service providers can be used as a tool to gain competitive advantage.

This research also helps to attribute the performance of oil companies that are directly influenced by

IV. Literature Review

A. Overview of outsourcing

The model of a 20th century company was that of an integrated company that was able to own, manage and directly control its activities. This model sought to make organizations more self-resilient to competition by producing for themselves whatever they needed. This era saw the increase in diversification to enable companies take advantage of economies of scale. This contributed the bloated management structure of companies in the 1960's. Business events took another turn when local organizations were unable to compete globally. This was mainly because of their inability to respond quickly to changing market demands; the consequence of non-flexibility associated with tall layers of authority. In response, organizations examined their value chains, identified their core competencies, and gave out non-core activities to external entities. Although outsourcing was not identified as a business strategy until 1989 (Maulin,1996), the concept is not a new practice in the business environment. The dependence of business organizations on external resources is a predominant practice among growing global businesses. The practice evolved from outsourcing of ancillary services to vital business operations not in line with core competencies, such as human resource management, security, etc as a cost-saving measure. Currently, outsourcing has grown to become a medium for strategic partnerships which has seen companies form partners with other organizations that perform core competencies better. Globalization among other factors have increased the competition in business circles. An evaluation to determine what an organization need to outsource have moved from what one sees as a core competence to who gives the effective results.

B. Outsourcing in organizations

Adam smith in his work 'An Inquiry into the Nature and Causes of the Wealth of Nations' said, 'If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage'(Vitasek & Manrod, 2013). In his view, organizations have to strive to get the best total cost of prices by looking outside the entity for other entities that are able to produce components cheaper (North Carolina State University, 2006).

Outsourcing has been identified as a business strategy where an organization decides to contract some of their business functions to an outside firm; with the intention of minimizing operational cost and concentrating on their core competencies. This will enable organization focus more on the competencies that affects their performance directly.

C. The Oil and Gas industry and outsourcing

According to Vestre, (2016)the oil and gas industry forms part of a broader energy industry which includes the power generation section, nuclear section, and the renewable section. The importance of this industry cannot be understated as it contributes significantly to the Gross Domestic Product (GDP) of every country. The International Energy Agency's World Energy Outlook (2009), identified the energy industry as one of the fastest growing industries because of the increased demand from emerging countries. The projection in demand for energy was seen as a major opportunity for companies because meeting these the projected demand will require huge investments and efforts with guaranteed returns.

Globally, the high competition and operational cost coupled with the uncertainties such as diminishing resources, unstable crude prices, companies in the oil and gas industry are faced with the challenge of managing their range of operations (Mitchell, et al., 2012). For an industry contributing to about 40% of the global primary energy demand, companies in this industry will have to efficiently manage their portfolio to remain competitive and versatile; mostly by reducing capital expenditure. A major factor for consideration in policy implementation for this industry is the huge capital as well as high operational cost that are synonymous to the complex nature of the industry(Ravago, 2007). The need to control cost with the upstream section continues to rise, with the need for more environmentally friendly exploration options and crude price instability. The downstream has also been subjected to the need for cost reduction to enable them maintain margins in view of global economic crisis and the decline in demand from mature markets(Toluwase, 2017). According to Toluwase, (2017) for developing countries with significant contributions to the oil and gas industry, there is a challenge with business process inefficiencies, local content development policies and scalability.

In view of these challenges, companies in this industry are exploring other options other than mergers to recover their baselines. A critical assessment of the value chain of the industry's operation has led to outsourcing of non-core activities on the industry to enhance the performance of the companies. The complexity in the operation requires tactful navigation to outsource supporting function and concentrate on core competences. Generally, areas with a high tendency of being outsourced include design and engineering, finance and accounting, human resource management. For example, a report from British Petroleum indicates that 30% savings were recorded as result of outsourcing their accounting and finance functions to Arthur Anderson in the United Kingdom (Toluwase, 2017).

Although the best outsourcing model for such a complex industry will be hard to find, some literature suggests factors for consideration and the best environments for their implementation.

D. Value chain in the oil and gas industry

Many organizations have resorted to outsourcing as a means to address the dynamic resource requirement of a business. This has aided in obtaining specialized skills when needed, improved responsiveness and efficiencies. The drive for organizational responsiveness and its effects on the outsourcing practice, as well as the structures within the firm, include technological emergence, increase in risk, emphasis on corporate capabilities and the ability to compete in global markets.

Literature on strategic management envisage downsizing and outsourcing as common practice of non-core competencies(Vestre, 2016). An assessment of profitability and cost drivers of the various activities along the values chain will result in the realignment of the value chain. As a result of reconfiguration, decisions such as outsourcing, mergers and acquisitions and integration are made(Vestre, 2016).

The value chain of an oil and gas industry is made up of;
Exploration
Field development
Production and maintenance
Transportation
Trading
Marketing and Sales

Figure 2.1Value chain of the oil and gas industry(Vestre, 2016)

E. Model of outsourcing

The preparation phase involves the organization's consideration to outsource. According to Hanse (2011), management of organizations consider the pros and cons of outsourcing a function, performing them in house, redundancy through automation or technology. It also includes the consideration of what to outsource, where to outsource, how to outsource. A decision-making matrix could be used to evaluate the buyer capabilities to be able to manage outsourced function and the complexity of the outsourced function. Ideally, the risk is low when organisational capabilities are high, and the complexity of function is low(Hansen, 2011).

The second phase of vendor selections describes the methods of selecting service providers. This defines a rigorous framework of the criteria needed to select the best -in-class service provider. This process is usually very competitive to ensure value for money(Perunovic & Pedersen, 2007).

The in-house functions will have to be transitions seamlessly to the service provider when the decision to outsource and the vendor choice is made. This is known as the transition phase. At this phase the capabilities of the vendor are closely monitored to ensure their start up performance is what is expected. The transition phase should be collaborative, both the vendor and the client, to ensure functions are transferred smoothly (Perunovic & Pedersen, 2007).

At the relationship management phase, the client company looks at opportunities and strategies to foster and improve the buyer-vendor relationship. At this stage management of the client firm look at avenues of gaining more from a vendor to ensure they work in their best interest. Some outsourcing arrangements through good relationship management end up as partners as their interest align(Perunovic & Pedersen, 2007).

The last phase of the cycle is more of an evaluation of the choice to outsource, the vendor the transitions and the adopted relationship management approach. For progressive outsourcing relationships this may be the first step to consider changes to vendors, change of relationship or the continuation of the agreement (Perunovic & Pedersen, 2007).

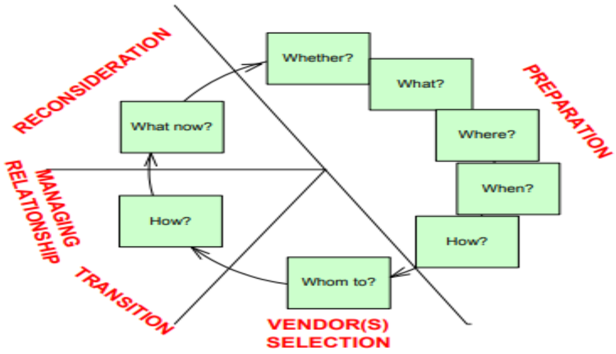

Figure 2.2 Framework for the process of outsourcing (Perunovic, et al., 2006)

F. Outsourcing theories

Outsourcing has been approached with different evolving theories. The theories of outsourcing discussed in this literature addresses specific phases of outsourcing and issues that may be encountered in the context of these phases. A frame work proposed for the process of outsourcing outlines five phases; reparation, vendor selection, transition, managing relationship, reconsideration phases(Perunovic, et al., 2006). Some of the theories have been discussed below.

G. Transaction Cost Economics(TCE) theory

Transactional cost refers to the incurred by a company as a result of its activities in market, including fees and taxes that a company pays for the provision of a service or a good either to external parties or as internal cost (Yousuf, 2017). These costs are incurred when purchasing or selling goods and services. These are the cost of exchanges of goods or services in the market; separate from the actual cost of the commodity being exchanged. In the operation of a company these costs include legal fees, communication and publication, the labour required to transport the goods to the market. The concept of transaction cost emphasises the need to reduce internal cost of transacting trades by searching for outside firms and contracting them for long terms in order to reduce transactional cost. TCE has been used by many organizations as a decision making tool to decide which of their operations to outsource as well as organizational restructuring which arise from the outsourcing(Vaxevanou & Konstantopoulos, 2014). When the cost of writing, monitoring and enforcing contracts are high, mostly for activities of high uncertainty, transactional costs consequentially increase rendering outsourcing inefficient compared to the activity being managed internally (Gottschalk & Solli-Saether, 2005). The premise of this theory makes it an important criterion in the implantation of the relationship and the reconsideration phase (Vaxevanou & Konstantopoulos, 2014).

H. Core Competence theory

Core competencies are not easily acquired as they are bundles of skills and competencies accumulated over a period. According to Prahalad & Hamel who pioneered this concept in 1990, the core competence sums up a company's peculiar attributes on how to conduct business with a competitive edge. These competencies should not be easy to imitate by competitors, show its relevance in the productions of a wide range of goods and services, and be experienced as a value in the end product or service(Kawshala, 2017). Core competence of an organization is influence by their competence (ability, knowledge and skill), their resources (systems, processes, employees, patents) and capability (the ability to combine organizational resources and competences efficiently) and translate into competitive advantage through which organizations grow.

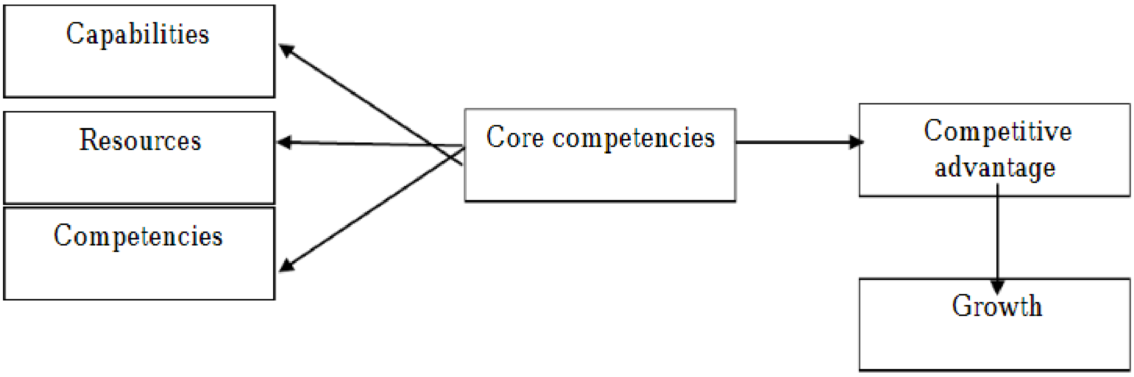

Figure 2.3 The concept of core competence (Kawshala, 2017)

This theory as a decision-making tool suggest that organizations should critically assess their resources, capabilities, and competences. The functions of operations where the three factors are limited are outsourced to a firm with core competencies in these areas. In some cases, non-core activities could be retained in-house as a defensive posture to protect competitive advantage(Gottschalk & Solli-Saether, 2005). The premise set by the competence theory highlights the considerations that should be made in the preparation and reconsideration phases of the outsourcing process.

I. Relational Theory

The Relational theory, also known as the partnership and alliance theory, explains organizations the strategic decision of enterprises to acquire and maintain competitive advantage by virtue of their relationship with another organization. There have been models based on the relational theory aimed at developing competitive advantage from the beginning of the supplier selection process and relationship maintenance phases for technological advancement (Sakas, et al., 2014). Usually, the success of an outsourcing process is determined by quality of the relationship and the commitment from the parties involved to ensure such a relationship is developed and sustained (Vaxevanou & Konstantopoulos, 2014). The ground of this phase makes it a useful model to implement the transition, relationship management and reconsideration phases.

V. Methodology

J. Research Approach and Design

A research design is a structural plan and investigative strategy conceived to address research questions. This blueprint will detail how variables will be measured, the interested sample for the study, data collection to test the research hypothesis and analysing the results. Through a research design, the researcher decides and communicates the study design, how information will be gathered from respondents, how these respondents will be selected, how the information obtained will be analysed and how the findings will be communicated(Kumar, 2011).

The study design for this research was to explain how the performance of service providers affects the performance of TPGL. The main research methodology used in this research is the qualitative approach. This approach was selected to translate the view of various stakeholders and aggregate the various contributing factors for analysis. This approach was expected to capture intangible factors such as the culture, perception and experiences in the industry. The absence of industry data and related local research in this industry made the quantitative approach a less effective option for this research. For that reason, the study aimed at investigating the correlation between outsourcing and organizational performance rather than the extent of the variation, thus the quantitative approach. Also, the flexibility with the qualitative approach allowed for target groups to fully express their opinions and experiences as well as give the researcher the opportunity to probe responses to obtain respondent concordance.

Total petroleum Ghana Limited (TPGL) as an organization was selected as a case study because the practice of outsourcing is typical to its operation. As one of the leading Oil Marketing Company's (OMC's) with a track record as a trusted brand with consistent performance in the industry; this organization provided a basis for examination that could represent the industry. TPGL is also directly subjected to local industry policies as well as foreign directives from its parent company and requires tactful strategy to navigate through a highly competitive industry and remain profitable. Their journey from a leading market share holder to the third position in the oil marketing industry in recent times may help isolate and explore the options associated with outsourcing.

K. Sample size and Sampling technique

Sampling is the process of selecting a section of the population, known as the sample, to represent the population in a given study. The criteria for selection of the sample will inform how the findings of the research can be generalized. The primary objective for sampling is to ensure that the suitable elements in a population are selected to appropriately carry out a research (Lopez & Whitehead, 2013). Unlike quantitative research, the sampling technique used in qualitative research is non-probability sampling (Lopez & Whitehead, 2013). Non-probability sampling is ideal for examining real life situations (Yin, 2003 cited in (Taherdoost, 2016)). A clear basis for the selection of cases and individuals rather that other alternatives is required (Taherdoost, 2016).

Judgemental sampling technique was used to collect data. This technique was appropriate to obtain and gather information only a selected group of people could provide; based on their knowledge, experiences and their office. A typical case sampling technique employed to select two groups of service providers, those with functions related to critical equipment and those with lesser critical functions.

L. Data collection instrument

According to Wilkinson and Birmingham (2003), interviews provide more insight into the meaning of what is happening. The theme in each research question and the theories, conclusion and recommendations, from selected research and literature, formed a section of the semi-structured research guide. The semi-structured interview allowed for clarification of ideas and opinions although most of the questions were predetermined. A copy of the interview guide was sent to the respondents and the research supervisor to eliminate ambiguity.

Focus group discussions are able to focus on mutual topic of interest for a group of people(Wilkinson & Birmingham, 2003). As described by Anderson (1996), it is a cautiously arranged informal discussion with a group of people; with similar and contrasting viewpoints creating a chain reaction of informative dialogue(Wilkinson & Birmingham, 2003).This method was appropriate to understand the experiences, opinions and recommendations from supervisors with varying areas of supervision and years of experience.

M. Data collection procedure

To be able to address the research questions and the undertake extensive literature research, a reflective data collection is essential (Kothari, 2004). This research employed a number of qualitative data collection methods.

Semi-structured interviews and focus group discussions was used to collect data for this research. The method used for the data collection was selected considering the research objective being evaluated and the population from which the data was required.

With respect to the influence on contracts on outsourced services, top management was interviewed with the aid of a semi-structured interview guide. Supervisors and vendors were engaged with focus group discussions.

With respect to the influence of supervision on outsourced operations, top management were interviewed. Maintenance supervisors and network managers were engaged in a focus group discussion.

Data on the influence of innovation on outsourced services was gathered through interviews and focus group discussions.

The impact of outsourced services was also gathered from interviewing top management and the maintenance supervisors of the buyer company, TPGL.

The data collected will be analysed using both the deductive and inductive approach.

VI. Findings

Interview with Maintenance Manager

The transcript of the interviewwith the maintenance manager of Total Petroleum Ghana Limited is presented below.

ME- Researcher
MM- Maintenance Manager

ME: A brief description of your job.
MM: *As the name suggests, the maintenance manager is responsible for the maintenance of equipment. It is my responsibility to make sure that equipment is always available and in good condition at the stations. This requires planning and scheduling of activities of maintenance to ensure there is a systematic way of maintaining equipment at the station. It includes the compliance of all equipment to regulatory directives.*

ME: What function are outsourced in this organization?
MM: *There are very limited staff in our operations. Basically, when activities involve several chains of actions, those activities are outsourced to ensure that individuals or firms are assigned and dedicated to such operations. This is to increase the concentration of such activities. For example, the maintenance of the pumps at our stations. There are a large number of stations scattered all over the country and there is a need to dedicate attention to this equipment. The staff requirement for this necessary attention needed is not feasible for the operations of the organization as an oil marketing company. These core business company is to market and sell petroleum products and not the maintenance of equipment. Outsourcing gives the opportunity to provide the man power and expertise needed to ensure equipment are available and functioning while we focus on our core business. Basically, activities that we do not have expertise in are outsourced.*

ME: What are the drivers for your organization for outsourcing functions?
MM: *A number of factors influence our decision to outsource. As I said before, safety is a major criterion for outsourcing an activity. We believe that naturally when experts are engages it reduces the risk of an incident or accident. Also, by engaging experts the level of service we open ourselves to is high. Cost is also a factor, although not the major factor. It is a highly competitive industry and as a supporting section, we cannot afford to increase our overheads and expert to increase our margins. We strive to reduce the cost of transactions by engaging agents and contractors.*

ME: Is cost a driver for outsourcing in your organization?
MM*: Yes, cost is a factor for our decision to outsource. However, there is a high priority for safety and the environment. This is a clear company policy especially with the delicate nature of the products being handled. No economic benefit will override the need for safety for this organization.*
ME: What is the level of outsourcing for the organization; tactical or strategic?
MM: *Outsourcing for us has mostly been on the tactical level by ensuring operations are smooth, reliable and cost effective but I acknowledge that it cannot be so for the dynamics of business in the current circumstance. In reality when we consider outsourcing, we drive at achieving optimum operations by engaging people who are competent and ability. The strategic partnership is only secondary. Currently most of the service providers may not have the capacity for a strategic partnership but we continue to look for such opportunities.*
ME: Do you have challenges with outsourcing strategically?
MM: *Yes. As an affiliate of a global group there are strict HSE regulation. It makes it difficult to align with any service provider with a sub-standard or poor HSE culture. Most contractors do not have a fine balance between HSE and technical expertise. The company would rather find it prudent to encourage their HSE compliance as they improve their expertise, rather than becoming partners with them.*

ME: What are the criteria for selection of vendors?
MM: *This is purely a function of the purchasing department however I could give a brief overview. The process for outsourcing will require that a detailed request with specifications is raised and submitted to the purchasing department. The purchasing team then invited potential service provider to bid for the service or function. The collected bids are then submitted to the maintenance section to evaluate the technical competence of the service provider. During this evaluation we look out for the portfolio of the company, their experience in the industry, their safety systems and technical understanding of the request. The evaluated request is then taken to the purchasing team for a commercial analysis. When a service provider has won the bid, due diligence is carried out to assess their compliance to regulatory requirements and stated competence in their proposals. This process is also well defined by the groups standards and strictly adhered to.*

ME: **Do you practice offshore outsourcing?**
MM: *Yes. Currently we have some service providers from outside the country who manage some form of IT infrastructure for the section. Most of these offshore service providers have contracts with the group and are recommended by the group.*
ME: What factors affect the decision to outsource out country or in country?
MM: *The consideration to offshore happens mostly when there is difficulty in obtaining specialized services in the country. In some occasions, the poor performance of service providers has triggered the consideration to seek services from outside the country. The major deal breaker is mostly with the turnaround time required for equipment. Most of them do not have a local station and may increase the price for their service.*

ME: How influential are vendors in the industry?
MM: *Of course, they are influential. Some of them have associations and others have agencies of state*

backing their activities and the decision they take; but like I keep saying we have our standards with regard to safety that we meet to comply with. Although there are some constraints with vendors and their approach to work, we try as much as possible to find a mutual way of executing the job. So that at the end of the day the vendor benefit and the do not influence us with their activity. So even if they are backed by legal and regulatory agencies, we still carry out the due diligence process to ensure compliance to our standards.

Contracts on performance of outsourced services

ME: Are there contracts for all outsourced functions?

MM: *No. We do not have contracts for all outsourcing functions. IT is as and when there is a need for the service. If the function is a routine function, then we get a contract.*

ME: What is the basis of segregation of contracts?

MM: *Primarily, it is on the basic of routine and non-routine functions. Those activities that have a clear pattern and importance to our operations are categorized as routine to enable us engage service providers dedicated for them. For the functions that do not have a pattern of occurrence we engage on a job by job basis.*

ME: Generally, what has been the approach to contracts and why; long term or short term?

MM: *Our contracts are standard. They are structured in four phases. The contract is rolled out with a 6 months' probation period. If the service provider performs satisfactorily, a two and a half years period follow. At the end of the third year, there is an option to extend for another year. After the fourth year if the rates are good and the conditions are favourable to us, we extend for a fifth year. Usually the process of tendering and selection for a new contract to be drawn is done at the beginning of the fifth year. In totality we have a five year contract graduated in three phases.*

ME: How will you describe the relationship between your organization and service providers?

MM: *The relationship is a very professional one. They are engaged on their expertise and ability to help with optimizing operations.*

ME: Generally what challenges do you have with service providers?

MM: *We have a rigorous HSE system monitored by the affiliate and group. Most service providers are unable to meet demand placed with regard to the HSE compliance. The gap global standards and the local expertise is also a challenge.*

ME: Have you experienced failed relationships with vendors?

MM: *Yes. We have had the need to terminate a contract based on non-performance and we did.*

ME: In your opinion what was the reason for this fall out?

MM: *The reason for this fallout was abysmal performance. The service provider failed to meet the SLA's after several engagement. The contractor was given several opportunities to improve but continuously performed poorly. The impact of the poor performance was crippling so we had to terminate the contract.*

ME: How has contracts affected the performance of the unit?

MM: *The existence of contracts helps a lot in our operations. We have very strict purchasing procedures, and this can be a delay with selecting a service provider, negotiations among other purchasing functions. Contracts helps us as a section to find a balance between getting the job done and complying with procedures. Most of the requirement are covered with a contract to enable us focus on the technical execution of the work. I cannot imagine the pace of works without having contracts. Another advantage is the ability to prepare and control budgets. The more the works we have under contracts the better and that is an objective. To try as much as possible to increase the routine scope to cover a lot of functions.*

Supervision on the performance of outsourced services

ME: What is the role of supervision for subcontracted services?

MM: *Our supervisors are the field representatives of the section that monitor and evaluate the quality of the service being rendered. They are technically equipped to provide guidance to the service providers of what our standards. They also monitor the SLA's stated in the contract.*

ME: How are the roles of supervision executed in the organization?

MM: *The company activities are divided into areas. Each supervisor is responsible for the equipment and* *compliance of the retail station. They are also administrators of terms of the contracts. They basically initiate payment for works done and manage the relationship between the company and the organization*.

ME: Do you think supervisors are knowledgeable and skilful to supervise?
MM: *Yes. The company invests a lot in ensuring the knowledge of supervisors improves to meet new trends and safe working habits. They are mandated to undertake online training programs periodically. When need be, experts are also brought in to have extensive interactions. They need to know to be able to guide and approve the service rendered by providers.*

ME: What are the challenges with supervision
MM: *Currently the personnel. I do not have enough people to supervise and ensure simultaneous works at various stations are being done according to the procedure. Considering the coverage of stations nationwide, it is a huge task with the available personnel to execute works with the company's guidelines.*

ME: What are the objectives of process audits for vendors?
MM: *We invest a lot in the development of our service providers to be able to meet the requirements made by the group. Mostly with regard to safety the efforts made need to be sustainable to ensure progressive growth of the relationship. the audits help us to assess the systems being run by the service provider and evaluate how that supports our operations.in effect we look out for compliance and growth as a sign of commitment of service providers to help our goals*.

Innovation on performance of outsourced services.
ME: How innovative are your suppliers
MM: *They are willing to contribute to resolve operational difficulties in an innovative way. We do not hesitate to call on their experience anytime we have difficulty.*

ME: Do you perceive that service providers are technologically advanced?
MM: *No. I do not think so. We consistently drive their technological growth. In most cases the need to the steps taken by them to advance technologically or to be innovative is in response to some requirement we have made as clients.*

ME: How does your company encourage the innovation of service providers?
MM: *We have platforms for the sharing of ideas among service providers and ourselves. As one of the requirements, they are to share experiences of work and how to improve the operation. For example, if they were to attend to an emergency it is expected of them to suggest innovative ways of making sure such an occurrence never happens. This is important to us because it will keep our equipment longer.*

Outsourced services on the performance of organization
ME: What are the benefits of outsourcing to your organization?
MM: *Primarily, outsourcing exposes us to experts in the field to attend to our immediate need. We are able to operate at an optimum with less personnel; reducing the staffing requirement of the organization. Outsourcing also allows us focus on core objectives by clearly defining what to monitor and which actions to take*.

ME: Between cost reduction and operational standardization; which factor is likely to drive your decision to outsource.
MM: *Standardization of operations is our ultimate goal. The marketing team our major internal customers and they expect that the pumps, fridges, air conditioners are always available and functioning to drive their sales. Cost is always an underlining factor for our choices, but it will definitely be the ability to provide operating standard that are sustainable.*

ME: How will you rate your operational performance?
MM: *Even with the challenges, I think we are doing okay. We continue to learn and improve our systems. I acknowledge the difficulties, but we are not far from where we want to be. We need to sustain current efforts and build on them.*

ME: Has the performance of your service providers impacted on your operational performance?
MM: *Yes, it has. It is for this reason we continue to look out for the best of service providers. Their contribution affects us greatly and we need to make sure the supervision is spot on. We need to audit service providers and evaluate their performance as it has a direct impact on ours.*
ME: Are you satisfied with the current output of your vendors/clients?
MM: *At the moment we have engaged some of best in the industry and believe their output is encouraging. I believe they can improve with their innovations boast their performance they should look to meet international standards and not be comfortable with their current performance. In my opinion their collective performance is satisfactory.*

VII. Discussions of the Findings

N. Outsourcing Strategy

TPGL is an oil marketing company with about 230 retail stations nationwide. The operations of this organization include aviation, supply and distributions, projects, and maintenance. The mandate of the maintenance department is to ensure all equipment are functional and running at optimum capacity. To be able to perform this function effectively, there is a need to systematically schedule and implement their activities to ensure the sales target of the marketing department is met. Compliance with regulatory directives is also monitored and implemented by the maintenance team. After the acquisition of Mobil Ghana Limited in 2006, the company restructuring included the laying off of some engineering staff (mainly pump mechanics) and outsourcing a majority of the engineering function. As described by Krstic & Kahrovic (2015) and (Ghodeswar & Vaidyanathan (2008) the decision to outsource in the phase of transition and transformation could enable a firm obtain a large market share. Total became the leading market share holder from 2008 to 2013(National Petroleum Authority, 2017).The growing trend in the industry was a strategic decision by OMC’s to align all resources to increase volumes and focus less on supporting functions. With the intense competition among

OMC’s currently, the need to outsource continues to grow.

Currently, the outsourced functions include preventive and curative maintenance of all equipment, civil works, mechanical works, electrical woks, and consultancy services. This is a tactical decision with the primary objective of ensuring optimum equipment functionality at all times. This decision affords the company the opportunity to obtain expertise of each equipment or service and its associated human resource implications. Although cost is also a factor for outsourcing for TPGL, the best-in-class expertise and the safety of operations takes precedence. The main driver for outsourcing is for the improvement of operations while freeing up resources for other investment. Primarily, the decision to outsource is on a tactical level and on improving functions however the company continue to look for opportunities with capable vendors for more strategic arrangement. As an affiliate of the Global Total Group, TPGL has a rigours framework for selecting vendors with emphasis on the safety culture of the vendor. The directive from the group, the delicate nature of the petroleum products as well as the risk of damage to brand in the case of an incident makes it imperative to prioritize safety over cost. Although cost may not be at the fore of vendor selection, there is a purchasing procedure with threshold for sole sourcing, competitive tendering, and waivers. The strategic level of outsourcing is limited in TPGL. Management always seek to address operational problems tactically and believe the brand they command is strong enough to offset any influential vendor within the industry.

O. Contracts

Outsourced functions have been segregated into two main categories, routine, and non-routine. For critical equipment and works that are required regularly, contracts are drawn to allow smooth operations and monitoring while making variable cost fixed by paying lumpsums periodically. For works that have no clear patterns of occurrence, there are no contracts drawn for them.

The company’s general design is to have long term commitments but to execute them in phases to ensure service providers continue to perform at their maximum. A contract usually takes five years, but the vendor executes the first six months on probation. The next two and a half years follows. After the third year both parties have the option to extend annually for the next two years. This design conforms to one of the recommendations by Vestre (2016) on the need to engage in short term contracts of one year with service providers. Some contacts renewals have stalled and have caused some vendors to work with rates from their previous contrast. Comparing the inflation rates from the time the contract was drawn till date, it is worthy to note that the prices of commodities have increased. Under normal circumstance, such vendors are to state their displeasure or opt not to serve but the relation with a brand like TOTAL is valuable to them. This phenomenon explains the social exchange theory where actors in a social exchange relationship usually make decisions of exchange contingent on the rewarding action of other actors in the deal. Varey (2015) explains that self-interest is served by returns through cooperation. The benefits for TPGL could be that they continue to enjoy services under contract at rates lower than what the market offers, and the vendor continues to enjoy the credibility for having to associate with a multinational brand.

P. Supervision

The role of supervision to TPGL is to ensure the compliance of the vender to the terms of the contract and the technical requirements of the activity. They are the entrusted by the organizations to implement the outsourcing agreement with the contract, the policies of the organizations and their technical expertise as a guide. This requires that supervisors are skilful and knowledgeable to match the expertise of service providers.

As argued by Pellegrini et al (2012), TPGL acknowledges the hidden cost that comes with the servicing of outsourcing agreements. These hidden costs are mostly because of gaps in the scope of work defined in the contract the supervision needed to ensure that the right thing is done. This includes the need to station supervisors strategically all over the country. One of the reasons for the stalled renewal of contracts is to revise the current contract module to fix a lot of variable terms and assign more responsibilities to service providers. There is also a possibility that some of the contracts will not be renewed.

Q. Innovation

TPGL believes to be the driving force behind the innovation of its service providers, with the main driver for innovation being the gap between what is expected and what is delivered. In recent times, the gap in communication and monitoring has led to the design of mobile phone applications. This has been an essential tool for both TPGL and its vendors to communicate effortlessly and promptly. TGPL drives such innovations as requirements to service providers to implement. Internally, the company supports innovation through many collaborative efforts.

Technical innovation according to supervisors has not been encouraging. The focus has been to increase the safety culture of service providers, leaving the technical and system managements to the periphery. With HSEQ credentials being a major criterion for vendor selection, service providers have aligned more resource to conforming than innovating.

The funding and ownership of such an innovation is by the vendor. Such practices may deliver short term benefits for vendors and widen the technological gap between service providers and TPGL as described by Bakewell et. al (2012).

VIII. Conclusion

This research stated with an insight into the practice of outsourcing and the impact on organisational performance in the oil and gas industry. The phenomenon of outsourcing is widely practiced in the oil and gas industry; especially with the section of the value chain that deals with the marketing and sale of petroleum products. This strategic choice affords the organization the opportunity to tap into the services of experts in specific fields. Although the industry has underpinning engineering activities, the focus is to meet the dynamic demand of customers in a competitive market. There is an imperious need to reduce operational cost due to uncertainties in global oil prices. Outsourcing has been used by many in the industry to reduce operational cost to improve margins. The outsourcing experiences in the oil and gas industry has been a learning curve outsourced functions that include IT management, HR management, engineering, and customer service.

The objective of this study was to investigate outsourcing on organizational performance. In the build up to the main objective, the influence of three parameters (contracts, supervision and innovation) were also investigated to determine how it influences the performance of service providers. The drivers for outsourcing are expertise, focus on core mandate and reduction of operational cost. Management also acknowledged that the paramount outcome was optimum operation of the unit.

In this study, it was gathered that the presence of contracts positively affected the performance of a service. Both vendor and client company related well when all variable of the arrangement were specified and documented. The performance of the function was effortless with less attention to cost or equipment functionality. In the cases of vendors with no contracts, they were unable to respond promptly to requests. Vendors with expired contracts were hopeful their contracts will be renewed to enable them to continue their service with TPGL and plan adequately for staff and inventory. On the part of the client, the existence of a contract that exhaust the scope f works is beneficial in budgeting and monitoring.

Effective supervision also enables service providers to comply with requirements. The role of technical supervision and relationship management should be considered apart to increase operational performance. Both parties need to closely monitor triggers that could negatively affect the relationship. Supervision influences the output of service provider.

Innovation is often the alternative of resolving challenges without changing the scope of the initial agreement. Innovative ideas generated collaboratively helps resolve challenges parties in the agreement face. It is admired that service providers display high initiatives to find innovative ways of performing a task. This shows an interest to improve processes and meet the changing working conditions. Innovations influences the level of performance of outsourced services.

Through this research, the importance of outsourcing has been registered has been emphasized with the case study. The failure stories and challenges has only lead refining the practice rather than completely ignoring its benefits. From a critical viewpoint, the service provider for the term of the arrangement are an extension of the client firm. The actions of service providers mirror the standards of the clients. This emphasizes the need to periodically audit service providers. Also, the actions of client companies affect the ability of the service provider to perform. In conclusion it is quite evident that outsourcing has an influence on organizational performance.

IX. Recommendations

The study has some recommendations on best outsourcing practices in the oil and gas industry in Ghana.

Contracts: The terms of an outsourcing arrangement should be formalized and documented. This will guide the expectations of all parties, with responsibilities and penalties. Contracts should be monitored closely to initiate renewal processes in advance before they end.

Fixed rates for out of contract work: Although contracts are important to ensure the compliance of service providers, it is impractical for all works to be done under contracts. Contracts for non-regular and non-routine works will fix the expenditure and may increase the operational cost for relatively fewer works. By fixing rates, the delays with negotiating and selection of service providers will reduce

Dedicated relationships managers: The parties to the arrangement should each have dedicated representatives to address problems and implement improvements from innovations. Although reducing the number of personnel could be an objective of outsourcing, it is important for the conscious efforts of both parties to dedicate personnel for the success of the arrangement.

Increasing the pool of service providers: Organizations will have to expand its pool of service provider to drive competition and standards. There should be alternatives who are equally qualified to be able to execute the functions

Further research: The context of this research could be expanded to include other competitors in the oil and gas industry. Their outsourcing practices could be investigated to identify differences and similarities and how they have contributed to their competitive advantage.

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