

IMPACT OF LOGISTICS OUTSOURCING STRATEGY IN OIL AND GAS INDUSTRY IN UGANDA

*Article review by Abaniwonnda Azeezah Osaro
(MBA General- Student of Texila American University)
Email : osaabanny@yahoo.com*

SOURCE:

Augustine, M., Jian, Z., Maureen, K. M., 2013, 'Impact of Logistics Outsourcing Strategy in Oil and Gas Industry in Uganda', International Journal of Business and Management, May, 9 (6), pp.187-198, viewed 20 October 2014 at <http://www.ccsenet.org/journal/index.php/ijbm/article/view/35279>

INTRODUCTION

This task carried out is a review of the article titled 'Impact of Logistics Outsourcing Strategy in Oil and Gas Industry in Uganda'.

The oil and gas industry globally has logistics cost as a vital component of its total cost that varies with the various level of economic activities, depending on level and nature of their production function. In an effort to achieve overall objective and attain targeted performance level of firms leads to outsourcing as an option for firms. The uniqueness of logistic is not only that is a cost element that can affect profitability, competitiveness and strategic position of individual firms, but creating obligation for contract with prospective suppliers to maintain continuous production. As a result of contractual and price uncertainties, a major technical issue in outsourcing is risk taking and depending on the level of risk a firm can take. The role of the producing segment of the economy; firms, is to allocate scarce resources that have alternative uses efficiently but the complexity of modern day businesses has made firms to resort to devising means of optimization through maximization of profit and minimization of cost.

The Ugandan oil and gas industry like any other oil and gas industry is compelled to take decision on outsourcing which depends on certain economic parameters which in turn affect the competitiveness, profitability of the firm as well as sustenance of supply chain

The review will start with a brief summary of the article, followed by a review of related literature after which an insight into the research design and survey results are considered. Thereafter investigate how effectiveness of the article's structure in inquiring outsourcing puts an oil firm in strategic position and its accessibility efficiency from readers' perspective.

The review will further make a critique of the article, evaluating its authority, currency, accuracy, objectivity and coverage. The review finally judged the article's accessibility and credibility.

REVIEW OF LITERATURE

The concept of 3PL has been defined by various authors, however, the vast literature on logistic outsourcing centers on "the use of external companies to perform logistics functions that have traditionally been performed within an organization. The functions performed by the third party can encompass the entire logistics process or selected activities within that process". This broad definition suggests that 3PL includes any form of outsourcing of logistics activities previously performed in-house. Another definition that is distinct links the 3PL concept to some distinctive functional and/or inter-organizational features of the logistics outsourcing relationship. In general, it involves third party (a logistics service provider) carrying out logistic activities on behalf of a shipper and consisting of at least management and execution of transportation and warehousing with the aim of effectiveness and efficiency (LSCH_C03.QXD).

In addition, other activities can be included, for example inventory management, information related activities, value added activities, or even supply chain management. A unique difference between 3PL and conventional arm's length sourcing of transportation and/or warehousing is that there is contractual agreement in some management, analytical or design activities, and the length of the co-operation between shipper and provider to be at least one year (Xiaofeng, Z., & Qi, T., 2009).

Basically, 3PLs providers can be categorized into four; **Standard 3PL providers** (Offer standardized services such as pick and pack, warehousing, and distribution, or even assembly), **Service developers** (Offers, in addition to standardized services, more value added services, such as tracking and tracing, cross-docking, specific packaging, or providing a unique security system), **Customer adapters** (Take complete control of the customer's logistics function and processes, at the request of the customer), **Customer developers** (In addition to complete control of the customer's logistics function and processes also develop the processes further by developing new and customer adapted services). (LSCH_C03.QXD) From the view of the logistics level, the influencing factors of the logistics cost can be divided into **macro** (a country or a region's overall level of logistics development), **micro** (the enterprises, as the main body of logistics business, the management level of the enterprises will directly influence the cost of logistics) and **industry** (activity that mainly refers to a particular industry or a certain category of goods, organize and distribute according to the goods' characteristics).

According to George, N. K., Mary, J.M., (2009), the success factors for logistics outsourcing that are both moderating (i.e. organizational structure, product volume and mix, and the degree of supplier integration) and contextual (i.e. age, size, unionization, and ownership type) are identified. Most of the effects are second and third order, which means that there are

few easy answers to success factors when outsourcing logistics. Plant managers would do well to avoid those limited conditions that drive costs while seeking the combination of conditions that create a sweet spot in their own operation.

The potential for operating cost reduction through logistics and supply chain management is considerable. Because a large proportion of costs in a typical business are driven by logistics decisions and the quality of supply chain relationships, it is not surprising that in the search for enhanced margins many companies are taking a new look at the way they manage the supply chain (Alexandrei and Jurandri, 2009)

It is not just the transportation, storage, handling and order processing costs within the business that need to be considered. Rather a total pipeline view of costs on a true 'end-to-end' basis should be taken. Often the upstream logistics costs can represent a significant proportion of total supply chain costs embedded in the final product (Paul www.oas.org).

ARTICLE SUMMARY

The article is an attempt to look at outsourcing as an element of Strategic Cost Management (SCM). The article looked at the various definitions of outsourcing from various authors and concluded that it is involving third party for the supply of non-core factors of production rather than instead of manufacturing itself. The idea of outsourcing generally stem from the fact that firms always put themselves in competitive advantage as cost reduction is one of such drivers of outsourcing. With the supply of such materials to be outsourced constituting mostly logistic services, which basically include transportation, storage and warehousing as well as value addition can go to a long extend to determine firms' restructuring in terms of dissemination network and competitive advantage.

Generally, the oil and gas industry is a global market, making competition the order of day while the Ugandan economy (including oil and gas industry) is developing necessitating the occurrence of conventional strategic and competitive tendencies to make firms developed. The logistic outsourcing for a firm in the oil and gas industry in general and in the Ugandan market specifically will make suppliers (contractors) to contribute significantly through technology as the sustenance of the Supply chain will be specialization.

The article proved that Logistic Service Providers (LSPs) in the supply chain aids both the flow of information and goods across each segment, it will also improve customer relations and service satisfaction with the LSPs.

It can be concluded that the aim of the article is the impact of logistics outsourcing as a strategic management in the Ugandan oil and gas industry with the perception of firms in relation to the benefits and challenges. It also portrays how to mitigate the challenges as well enumerate the services provided by using selected managers and staff of both the firms in the market and the LSPs

ARTICLE STRUCTURE

The article started with an abstract which provided the highlight of the objectives of the article; to study the impact of logistics outsourcing strategy on the oil and gas industry in Uganda. The article portrays logistics as non-core cost which is conventional to the oil and gas industry in general, it is a concern for the strategic and competitive element of customer service and ancillary to the flow of goods specifically to the Ugandan market. However, the cost element was recognized by the authors.

In presenting the article, the introduction gives background to the concept of outsourcing of logistics as well as makes reference to literature works with respect to the strategic importance of logistics outsourcing. The article used quantitative primary data from a research design to inquire in to the subject; this approach is adequate to get the necessary information about perception. The article was concise as the analysis and discussion section restricted itself to the information derived from the questionnaire and interview. The questionnaire was a close ended questionnaire which required the respondents to answer questions that are relevant to the oil and gas industry and the research in question. This methodology adopted makes the work unique compared to similar works.

The article was logical through making use of well organized paragraphs with each paragraph dwelling on specific issues.

The article was PDF file and an HTML was available with the link it was downloaded from the site, with a good number of the references and citations having the links for readers to access the relevant information and possibly makes further readings by assessing the content of the article. It is noteworthy that the reference style adopted for this article by the author is consistent throughout the work giving readers and researchers effective retrieval of information.

ARTICLE CRITIQUE

AUTHORITY

The article was written by three authors namely Augustine Muhindo, Jian Zhou and Maureen Kapute Mzuza. Professor Jian Zhou (PhD, Management Engineering, Xi'an Jiaotong University) published 10 academic papers, take in charge of 4 top-level projects, got the 1st prize of SAST technology award. Zhou Jian is an associate professor at School of Management, Shanghai University (SHU), Shanghai, P. R. China. She joined the school since May 2011. His research interest includes Modeling of Supply Chain Finance System and Applications of Multi-Variable Statistical Analysis in Financial Engineering. Maureen Kapute Mzuza, has worked on Analysis of Factors Causing Poor Passing Rates and High Dropout Rates among Primary School Girls in Malawi published in World Journal of Education in February 2014 published in both print and online versions. While Augustine Muhindo an accountant and Auditor, is a PhD student, School of Management, Shanghai

University, P. R. China, Shanghai University, China. The three authors that are specialists in their fields co-authored *Impact of Accounting Information Systems on Profitability of Small Scale Businesses: A Case of Kampala City in Uganda 2014* published in *International Journal of Academic Research in Management* both print and online version at www.elvedit.com.

ACCURACY

The subject of matter in the article, logistic outsourcing is a contemporary issue, however, the authors hinged on the historical perspective in relation to its definition. The bulk of the referenced materials are related to the subject, with the various divergent views of the authors corroborating the realization of competitiveness and sustainable supply cost management through outsourcing. The introductory aspect of the article which forms the background of the subject was well referenced, accessible and provided related works to the concept of outsourcing in general and logistics in particular by experts and seasoned academia. The referenced materials are mostly published in 2012 and 2013 providing the author's a level of accuracy.

CURRENCY

The article which was received on March 21 2013 and accepted on May 8 2014 was published in the *International Journal of Business and Management* and published online on May 22, 2014 making it a current article. The *International Journal of Business and Management (IJBM)* is an international, double-blind peer-reviewed, open-access journal published by the Canadian Center of Science and Education. The journal focuses on the various topics which include strategic management, marketing, services, information technology management etc and which the title falls within these areas. As a journal, it provides an academic platform for professionals and researchers to contribute innovative work in the field. IJBM carries original and full-length articles that reflect the latest research and developments in both theoretical and practical aspects of business and management. The journal is published in both print and online versions. The online version is free access and downloads.

RELEVANCE

The article is titled "Impact of Logistics Outsourcing Strategy in Oil and Gas Industry in Uganda" and the author justified the strategic benefit of outsourcing logistics for the Ugandan oil and gas market as a publication in a seasoned journal, *International Journal of Business and Management* published the Canadian Center of Science and Education.

The article was chosen because of its relevance to the widely circulated journal which is often referenced by other works. The content mostly project firms as having competitive and strategic advantage by outsourcing its logistics and on the perceived challenges of

decision. by using a qualitative way despite using quantitative techniques from interviews from managers and LSPs, gives first hand empirical information to back up theoretical background of the importance of outsourcing logistics the conclusion and recommendation are useful for managers, LSPs, market analyst and policy makers with to fill gaps in the academic research and further works .

OBJECTIVITY

The article is about re-engineering process aimed at checkmating the sustaining the Supply Cost Management by putting firms in competitive advantage through outsourcing its logistics, translating it to networking and customer satisfaction. The article is objective because of the use of qualitative data gotten from interview with stakeholders in the market (managers of firms and LSPs)

The authors highlighted the various perspectives of authors with etymology of the concept, however, the cost structure of the market is not provided, with outsourcing as a non-core cost to know to what extent this can contribute to cost reduction and supply management sustainability. The questionnaire was well designed to look at the critical issues relating to outsourcing which include the benefits, challenges as well as perspective. Overall, the authors are objective.

STABILITY

The article can be said to be stable having been published in a journal and journals are more reliable in academic reference collection. The journal which is internationally recognized received the article in March and was not published until May showing that the journal takes into cognizance the content, relevance and ensured it follow the international best practice of journal publication.

The URL and ISSN are well referenced coupled with proper cataloguing and documentation to give wider reach.

ANALYSIS OF GRAPH/IMAGE/TABLE

There article has nine tables and four figures. While the introduction has only one figure (no table), the nine tables and remaining three figures are found in the research design (1 table and 1 figure) and survey results (eight tables and 2 figures) .

Figure 1 was the conceptual model of supply chain which the authors used to illustrate the flow of goods and information. The model shows that information flow from LSPs to the five receiving ends, namely, suppliers, manufacturers, distributors, retailers and customers. Similarly, goods flow from suppliers to the final customers (end users) through the manufacturers, distributors and retailers respectively. With the figure, the authors have been able to show that information can help avoid delay and improve customer relationship which in turn leads to competitiveness.

The table in the research design was a summary of the respondents and the tables in the

survey results shows the trend of responds from respondents. These figures are clear to explain the information.

Generally, the use of tabular information and graphical representations aid the data analysis since the research design emphasizes **proscribing** of the data from quantitative to qualitative. Overall, the use of diagrams was helpful in the article's presentation.

RECENT ADVANCES RELATED TO THE TOPIC

The Accounting discipline has come under heavy criticism and bastardize, and the general consensus on the aims and goals of the recent accounting theories are built around the premise of processing data gotten from accounting into vital information for usage in relevant and key decision-making process by the management of business (Sudi, A., Mikail, E., Ismail, E., Metin, A., 2012).

The success factors of enterprises have been limited by external influence, among which are, reducing the costs of their products and services. Enterprises have to perform production at a lower cost without compromising quality in order to be ahead of their competitors. A typical example is strengthen the Logistics Cost Checking through the logistics cost checking, we can fully reveal the full cost of logistics activities, and raise the person awareness for the importance of logistics cost, thus to achieve the aim of prompting logistics management, reducing the cost and improving the efficiency. So in order to carry out logistics cost control better, and propose logistics cost improvement measures, firms must accurately implement the logistics cost checking.

In considering the element of timing, for instance, an enterprise must act just in time in processes involving the raw materials and materials suppliers, production and presentation of the products to customers. If there is a delay in these processes, the gap will be filled by the competitors, hence the creativity (Innovation) and differentiation in order to be ahead of competitors, enterprises have to renew, differentiate their products and services and to develop new products and launch them on market (Xiaofeng, Z., & Qi, T., 2009).

There are a number of complex issues involved in actually calculating shareholder value but at its simplest it is determined by the net present value of future cash flows. These cash flows may themselves be defined as: Logistics by its very nature tends to be fixed asset 'intensive'. Trucks, distribution centers and automated handling systems involve considerable investment and, consequently, will often depress return on investment. In conventional multi-echelon distribution systems, it is not unusual to find factory warehouses, regional distribution centers and local depots, all of which represent significant fixed investment. Finally, Supply chain strategy and logistics management are fundamentally linked to the working capital requirement within the business.

CONCLUSION

From the foregoing, the article, 'Impact of Logistics Outsourcing Strategy in Oil and Gas Industry in Uganda' was reviewed. The review analyzed entire content by summarizing the

article and critically looked at the structure of the article. The analysis was followed by a critique of the article, as well as looked at the vital recommendations and relevant conclusions made from the topical issues raised in the perception of respondents in relation to the subject matter.

Generally, Logistic (and other services) generally form part of non-core costs for manufacturers. While this is same for oil and gas industry, the sustenance of supply cost management makes decision applicable to firms on whether to share risk and commit logistic services providers (LSPs) is a concern as revealed by the response of the managers who want to have confidence in mitigating the likely challenges of outsourcing logistics.

Even though the article was more or less a case study of Ugandan Oil and Gas Industry, the conditions in the industry can be applied to similar industries and countries since competitiveness and strategic advantage is a core economic goal of any business, it can be suggested that logistic outsourcing is beneficial to the firms in achieving financial gains customer satisfaction and viability of the supply chain through uninterrupted flow of goods and information respectively.

The strategic cost management as a process is vast but the authors through this article have made landmark contribution specifically to the logistics outsourcing for oil and gas industry in Uganda.

The article is timely in strengthening and straightens of academic data base on Supply Cost Management. It is also pertinent to know that there is room for further enquiry into the subject matter of cost reduction in general.

REFERENCE

1. Augustine, M., Jian, Z., Maureen, K. M., 2013, 'Impact of Logistics Outsourcing Strategy in Oil and Gas Industry in Uganda', International Journal of Business and Management, May, 9 (6), pp.187-198, viewed 20 November 2014 at <http://www.ccsenet.org/journal/index.php/ijbm/article/view/35279>
2. George, N.K., Mary, J., Success factors and cost management strategies for logistics outsourcing Journal of Management and Marketing Research pg 1-17 viewed on 1 December 2014 at <http://www.aabri.com/manuscripts/10684.pdf>
3. James, S. K., David, A. D., Logistics Performance Measurement and the 3PL Value Proposition viewed on 1 December 2014 at <http://www.logisticsquarterly.com/issues/7-2/article1.html>
4. Measuring logistics cost and performance viewed on 1 December 2014 at http://ptgmedia.pearsoncmg.com/images/0273681761/samplechapter/0273681761_ch03.PDF
5. Measuring transport logistic chain performance and the importance of efficiency: why corridors should lead to open doors viewed on 1 December 2014 at http://www.oas.org/cip/docs%5Cdocumentos_importantes%5CPresentacionesIxtapa%5CKent.pdf

6. Measuring Logistic Performance: The Effectiveness of MMOG/LE As Perceived by the Suppliers in Automotive Industry viewed online on 1 December, 2014 at <http://www.aabri.com/manuscripts/10684.pdf>
7. Sudi, A., Mikail, E., İsmail, E., Metin, A., 2012 'The Use of Contemporary Developments in Cost Accounting in Strategic Cost Management' Procedia - Social and Behavioral Sciences 41, pg 528 – 534 viewed on 24 November 2014 at www.sciencedirect.com
8. Xiaofeng, Z., & Qi, T., 2009, Analysis and Strategy of the Chinese Logistics Cost Reduction, International Journal of Business Management, April, 4(4), pg188-191 viewed on 27 November, 2014 at www.ccsent.org/journal.html.