

Cost Reduction and Staff Commitment in Shell Petroleum Development Company (SPDC) and Nigerian AGIP Oil Company (NAOC) (2018 – 2023)

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Abstract

Outsourcing that is occasioned by cost reduction has serious implication on staff commitment among employees in SPDC and NAOC between 2018 to 2023. The study adopted case study research method and used Likert 4-point scale on the questionnaire drawn from 692 respondents from a population of 25,664 staff. ANOVA was used to test the hypotheses. Institutional theory of outsourcing and staff commitment was the theoretical framework adopted for this study. Findings reveal that there is a significant relationship between cost reduction policy of outsourcing and employee's commitment. The study also shows that there is a positive relationship between contract administrative costs and employees commitment. Again, the study also shows that transition costs can affect the employee's commitment level in the study area. The study recommended that cost reduction policy of MNCs should not be geared towards downsizing of workforce.

Keywords: *Industrial organizations, Cost reduction, Administrative costs, Transition Costs, Commitment*

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Background to the Study

Modern industrial organizations have adopted means to reduce cost in the course of production. In a bid to achieve the above objective, cost reduction and efficiency have become one of the cornerstones of industrial organizations. However, in a bid to achieve the above, employee's morale maybe affected. This study is meant to unveil how outsourcing based on cost reduction affects staff commitment among employees of Shell Petroleum Development Company (SPDC) in Nigeria and Nigerian Agip Oil Company (NAOC) between 2018 and 2023.

Outsourcing based on cost reduction has to do with reducing the costs associated with salaries and employee's benefit. In other words, industrial organizations use outsourcing to cut labour cost, salaries of personnel, overhead, equipment and technology. Murkherji and Ramachandran (2007) averred that cost minimization, resource access, resource leverage and risk diversification are some of the advantages derived from outsourcing in industrial organizations. On the other hand, Eliran & Billington (2001), Hatonen & Erriksson (2009) and Grover (1994) also argued that cost reduction focus on strategic issues, increasing flexibility, improve quality, reduction of routine tasks, facilitating access to technology, staff costs are the merits derived from outsourcing policy.

Effect of cost cut in outsourcing is premised on the fact that it affects employees' job security. Employees may experience anxiety and decreased motivation if they fear job losses due to cost-cutting measures. Job insecurity can lead to decreased morale and productivity. In the work of Igella (2014:4):

Commitment is a psychological state that binds the individual to the organization. The binding force can be experienced in different ways that can be accomplished by different mindsets including an affective attachment and involvement with the target, a felt obligation to the target, and an awareness of the costs associated with discontinuing involvement with the target (Boxall & Macky, cited in Igella, 2014:4).

In the process of cutting costs, employees may not be rewarded as it ought to be. The implication of the above is that the morale of the employees may be dampened which will eventually leads to low employee's productivity. On the other hand, the cost saving measures put in place by multinational corporations (MNCs) occasioned by the policy of outsourcing engendered wage differentials between staff of the major MNCs and their servicing companies. The difference in salary structure can also affect the commitment level of the two categories of employees working in the same environment.

However, there are different reasons that will make employees to be committed to their job in spite of the prevailing condition in the organization. Hence, a range of demographic variables have been found to the related to employee commitment. Age has been found to be one of the major predictors of employees' commitment.

Studies suggest, the older employee become, then, the less alternative employment options available. As a result, older employees may view their current employment more favourable. One possible explanation for this relationship is that there are fewer employment options available to older employees which make them to realize that leaving may cost them more than staying (Jafr cited from Igella, 2014:47).

Another variable factor identified with employee's commitment is marital status of employees. Employees that are married will be more committed to their job than those that are not married based on responsibilities married employees have. "Single people, especially those who are not in a romantic relationship are perceived as less responsible, less mature and less well-adjusted than married people" (Hodges, 2010, De Paulo & Hortel, 2008, c.f. Igella 2014:20).

Culture of an organization can also make employees to be committed to their job and organization.

An organizational culture is the wed of rules which define how it goes about its tasks. There rules are often unspoken. Culture is in a sense, the way things are done around here: the culture defines what is allowed and what is not allowed, for both internal and external relationships (Jaja, 2009:50).

In a nutshell, outsourcing based on cost reduction and staff commitment among employees in the study area is complex phenomenon based on the variable factors that determines employee's commitment in industrial organization.

Statement of the Problem

The effect of outsourcing based on cost reduction and staff commitment among employees of SPDC and NAOC have become a complex issue to deal with owing to the interplay of variable factors that determines staff commitment. In an attempt to reduce labour expenses, MNCs uses contractors in order to spend less on maintaining permanent staff. When employees observed that their jobs will be outsourced, it decreases their morale and productivity.

Training of employees has also become one of the major challenges of MNCs. In an attempt to avoid training and retraining costs associated with employees, MNCs can decide to opt for contractors whom they felt that have well trained and experienced workforce. The outcome of the above action leads to lowering employee's commitment in the main MNCs.

Job insecurity has become the order of the day in most MNCs. The latter is based on the fact that MNCs continuously outsource one activity to the order. Hence, the jobs of those permanent staff who are employees of the main MNCs become insecure. "Many employees perceive the decision of companies outsourcing as a possibility of losing their jobs to people from the company providing such services" (Nicholas, 2016). The fear pervading the work environment of the employees can equally make them not to be committed to their jobs.

Savings on infrastructures or equipment can spur MNCs to venture into outsourcing. However, ownership of resources in the course of outsourcing will significantly affect staff commitment in the MNCs. In a related development, technological innovation will also have some implications on staff commitment among employees of SPDC and NAOC. When MNCs decides to outsource based on the understanding that servicing companies have more sophisticated resources and technology to carry out some functions. Staff of the main company may not be committed based on the fact that the major MNCs lack the modern equipment to carry out their needed functions. In a nutshell, this study is expected to examine the consequences of outsourcing based on cost reduction on staff commitment among employees of SPDC and NAOC.

Objectives of the Study

Specifically, this study will:

1. Unveil whether cost containment can affect employee's commitment in the study area.
2. Find out whether contract administrative costs have relationship with employee's commitment in the study.
3. Assess how transition costs affect employee's commitment in SPDC and NAOC.

Literature Review

Mirza (2012) states that cost reduction and effectiveness have caused most of the organizations to be specialized in the limited number of crucial areas. For Quinn (1999), specialist in supply market could enhance the efficacy of their employees by providing training in software system as well as offering more salaries so as to attract more trained people than all but a few integrated firms.

In their own view, Sharma and Loh (2009) and Kurdia et al (2011), outsourcing strategy seems to become solution for cost saving as well as strengthening the core competency in today's world. Cost saving cannot spur employee's commitment because workers will be apprehensive of the consequences of outsourcing. One of the consequences may be loss of jobs to third party employees. Hence, employee's morale will be dampen thereby affecting their productivity.

Chan (2011 c.f. Igella, 2014:19) states that “there is a positive relationship between job security and employee commitment”. In supporting the above author, Bosman, Buttendach & Laha (C.F. Igella, 2014:19) affirmed that job security plays a very crucial role in reducing employee turnover, as well as maintaining stable employment relationships in organizations. In the work of Uddin (2023), the impact of cost-cutting on employee motivation and company growth is a delicate balance that organizations must navigate. While cost-cutting measures are often implemented to improve financial stability and fuel growth, they can also have significant consequences on employee motivation, which in turn can affect overall company performance and growth prospects (Ogbonnaya et al, 2022).

Contract administrative costs include all those costs associated with activities necessary to select and manage an outsourcing partner over the life of the contract. How workers

commitment is affected as a result of the above action is part of what this study is made to examine. The activities of the main MNCs staff may be affected due to the fact that their salaries and services will be affected.

Transition costs includes all those costs associated with transferring some of the activities of the major MNCs to service providers. The costs include laying-off employees of the major MNCs in order to give room for the service providers to come in with their own personnel. Next is unemployment compensation and severance benefits staff are expected to get. In view of the above incidence, employees of the major MNCs morale will be dampen. Empirical studies carried out by Simeon & Emeka (2022) on Employee commitment and resource utilization in Oil and Gas companies in Port Harcourt, Rivers State, Nigeria in SPDC adopted Correlation research design. The population of the study was 650. From their findings, there is a significant relationship between affective commitment and cost minimization.

Theoretical Framework

This paper is guided by Institutional Theory of outsourcing and staff commitment has been postulated by Meyer & Rowan (Zucker, 1987). The above theory is based on understanding organization and management practices as the product of social rather than economic pressures.

Geels (2010) posited that Institutional Theory provides the bases for systematic analyses of innovations, using theoretical contributions about distinctions between formal and informal institutions and regulations, normative and cultural-cognitive types of institutions, as well as the different levels of institutions.

Methodology

This study made use of survey research method. The study adopted both qualitative and quantitative method of analysis in examining the effect of outsourcing occasioned by cost reduction and staff commitment among employees of SPDC and NAOC in Rivers State, Nigeria. The population of the study is 25,664, which comprised all the staff in SPDC and NAOC. Taro Yamane (Baridam, 2001) formula for determining sample size was used to draw 692 sample size from the target population. Out of 800 copies of questionnaires distributed to the respondents, 692 were completely and correctly filled and returned. The data collected were analyzed through mean and standard deviation, while the hypotheses were tested with the use of chi-square. An In-depth Interview of four of the staff was also done. Two staff from each of the two major MNCs, SPDC and NAOC.

Data Analysis and Discussion of Findings
Socio-Demographic Characteristics of Respondents

Table 1: Age of Respondents

Variables	Frequency	Percentage (%)
18–25	102	14.74
26–35	244	35.26
36–45	257	37.14
46–60	89	12.86
Total	0	100

Source: Research Survey, 2023

Table 2: Gender of Respondents

Variable	Frequency	Percentage (%)
Male	421	60.84
Female	271	39.16
Total	692	100

Source: Research Survey, 2023.

Table 3: Educational Qualifications of Respondents

Variable	Frequency	Percentage
FSLC/WAEC	115	16.61
OND/NCE	144	20.81
HND/B.Sc	303	43.79
M.Sc & PhD	92	13.29
Others	38	5.49
Total	692	100

Source: Research Survey, 2023.

Table 4: Religious Affiliation of Respondents

Variable	Frequency	Percentage
Christianity	502	72.54
Islam	149	21.53
Others	41	5.93
Total	692	100

Source: Research Survey, 2023.

Table 5: Employment Status of Respondents

Variable	Frequency	Percentage
Permanent Staff		9
Contract Staff	217	31.36
	475	68.64
Total	692	100

Source: Research Survey, 2023

Table 6: Monthly Salary of Respondents

Variable	Frequency	Percentage
50,000 – 100,000	52	7.51
101,000 – 150,000	76	10.98
151,000 – 200,000	133	19.22
201,000 – 250,000	180	26.01
251,000 and above	250	36.13
Total	692	100

Source: Research Survey, 2023.

The age bracket in the above table reveals that 102 (14.74%) respondents are within the age bracket of 18 – 25 years. On the other hand, 244 (35.26%) respondents are within the age bracket of 26 – 35 years. Further analysis shows that 257 (37.14%) respondents fall within the age bracket of 36 – 45 years. While those within the age bracket of 46 – 60 years are 89 (12.86%) respondents.

Data on gender shows that 421 (60.84%) respondents are males, while 271 (39.16%) respondents are females. With regard to educational attainment, 115 (16.61%) respondents and 144 (20.81%) respondents are holders of FSLC/WAEC and OND/NCE respectively. For those who possess M.Sc/PhD and other qualifications, 92 (13.29%) and 38 (5.49%) respondents are shown respectively.

In terms of religious affiliation, Christianity with 502 (72.54%) respondents were the highest religious group. Further breakdown shows that 149 (21.53%) and 41 (5.93%) respondents were Muslims and practitioners of other religion. Data on employment status reveals that 217 (31.36%) respondents are permanent employees. On the contrary, 475 (68.64%) respondents are contract-employees that was captured in the above table.

Furthermore, 52 (7.51%) and 76 (10.98%) respondents falls within the category of workers who earns ₦50,000 – ₦100,000 and ₦101,000 – ₦150,000 monthly. For those who earns between ₦151,000 – ₦200,000 shows 133 (19.22%) respondents. In terms of those who earn between ₦201,000 – ₦250,000, a total of 180 (26.01%) respondents were observed. While for staff who earns ₦251,000 and above shows 250 respondents which represents 36.13%.

Table 7: ANOVA^a: Cost Reduction and Employees Commitment

	Model	Sum of squares	DF	Mean Square	F	Sig
1	Regression	653.226	2	326.613	4644.723	.000 ^b
	Residual	48.450	689	.070		
	Total	701.676	691			

a. **Dependent Variable:** Staff Commitment among employees.

b. **Predictors (Constant):** Overhead costs.

The Analysis of Variance (ANOVA) in the above Table shows the effect of Cost reduction policy of outsourcing and staff commitment in the study area. From the data, we reject the null hypothesis and accept the alternate hypothesis based on the fact that there is a positive relationship between cost reduction policy of outsourcing and staff commitment among employees of the study area. The result shows that outsourcing based on cost reduction determines 93% of the variation in staff commitment among employees in the study area. The implication is that MNCs involve in outsourcing based on cost reduction can significantly determine the level of staff commitment.

Table 8: ANOVA^a: Administrative Costs and Employees Commitment

Model		Sum of Squares	DF	Mean Square	F	Sig
1	Regression	635.911	2	317.955	1966.814	.000 ^b
	Residual	111.384	689	.162		
	Total	747.295	691			

a. **Dependent Variable:** Staff Commitment among employees.

b. **Predictors (Constant).** Trade-offs to lower costs.

Data on the above table shows ANOVA on Administrative costs and staff commitment in the study area. The date indicates significant level of relationship between the dependent and independent variables. Result shows that administrative costs determine 85% of the level of staff commitment among employees in the study area. In other words, outsourcing occasioned by administrative costs determines staff commitment among employees in the study area.

Table 9: ANOVA^a: Transition Costs and Employees Commitment

Model		Sum of Squares	DF	Mean Square	F	Sig
1	Regression	658.877	2	329.439	2588.376	.000 ^b
	Residual	87.693	689	.127		
	Total	746.571	691			

a. **Dependent Variable:** Staff commitment among employees.

b. **Predictors (Constant).** Time and Resources.

ANOVA in the table shows the effect of transition costs associated with outsourcing and how it affects staff commitment among employees in the study area. From the above table, transition costs associated with outsourcing affects staff commitment. In the light of the above, we reject the null hypothesis and accept the alternate hypothesis which states that there is a significant relationship between transition costs and staff commitment in the study area. From the result, transition costs determine 88% of the variation of level of staff commitment in the study area.

Analyses of Qualitative Data (IDI)

In depth interview was conducted on four staff of SPDC and NAOC in line with the research objectives. On the question as to whether cost reduction affects employee's commitment in the above companies or not. Respondents in SPDC affirmed that:

One of the effects of outsourcing is that it reduces cost of operation, however, it dampens the commitment of the employees (IDI, SPDC, 2003).

In a related development, respondents in NAOC states that:

Housing allowance, transport allowance, end of year bonus, etc that would have motivated and spur us to be committed have been reduced seriously (IDI, NAOC, 2023).

In the area of relationship between contract administrative costs and staff commitment in SPDC, the staff affirmed that:

We are not too comfortable with the restructuring during the process of outsourcing. Our worry is that at the time of restructuring our jobs are usually affected (IDI, SPDC, 2023).

Interview on relationship between transition costs and employee's commitment in NAOC shows that:

We usually suffer job lost during the processes of handing over most of our activities to contractors. In other words, outsourcing affects our job security seriously (IDI, NAOC, 2023).

Discussion of Findings

Data presented from the ANOVA indicates that there is positive relationship between cost reduction and employee's commitment in SPDC and NAOC in Rivers. Hence, the idea of cost reduction has been enunciated by MNCs affects the rate at which employees will be committed to their work and organization. In supporting the above, Cohen (2022) stated that “while managers may see outsourcing as a cost-effective option, employees may feel like they are being replaced”. Institutional theory debunks the above findings by affirming that the result negates regulative, normative and cognitive perspective of industrial organizations. The study further reveals that contract administrative costs occasioned by outsourcing resulted to employees less commitment to the organization and their job. The study also reveals that there is significant relationship between transition costs and employee's commitment.

Conclusion and Recommendation

Having examined the effect of cost reduction in outsourcing and staff commitment, the study came to conclusion that there is a significant relationship between cost reduction policy of outsourcing and staff commitment in SPDC and NAOC. The study also shows that contract administrative costs also affect employee commitment in the study area. Furthermore, the study shows that transition costs can impact negatively on employee's commitment in the study area due to its consequences. Based on cost reduction, MNCs should not deny their employees their financial benefits. In a similar vein, cutting cost should not be geared towards downsizing workforce. Training and retraining of employees should be a continuous exercise.

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