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Factors Influencing Outsourcing of Logistics Services in Container Freight Stations in Kenya Case Study of Mitchell Cotts Limited

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Abstract:

Outsourcing is a growing aspect of supply chain management and has received a lot of attention from organizations globally as a strategy to remain competitive. Mitchell Cotts Container Freight Station (CFS) serves as the extension of the Kilindini port after the Kenya Ports Authority decided to decongest the port of Mombasa by licensing CFS'. The company outsourced its logistics function to Shiva Carriers LTD. The general objective of this study was to establish factors influencing outsourcing of logistics services. The specific objectives were management objectives, perceived benefits, perceived risks and nature of logistics services. The sample size in this study was 35 members of staff out of the target population of 350 employees of Mitchell Cotts CFS. Stratified random sampling technique was used, it involved dividing target population into the following subgroups, clearing and forwarding, procurement and logistics, warehousing and finance and selecting respondents from each subgroup. A structured questionnaire with both open and closed ended questions was administered to the respondents. A pilot test for the developed questionnaire was done using a sample of Mitchell Cotts CFS staff so as obtain responses of each of the developed questions. The data collected through the use of questionnaires was then coded and analyzed with the help of computer software Statistical Package for Social Sciences (SPSS) version 22. The study found out that business focus and cost effectiveness were the major objectives that influenced management to outsource logistics functions, cost saving and increased productivity were major perceived benefits that influenced the decision to outsource, perceived risks had very little influence in outsourcing. Logistics services that were outsourced were those that were non-core and required high capital investment like trucks though some other non-core functions were performed in-house like labeling and but they were seen as contributing to competitive advantage.

1. Introduction

1.1. Background Information

Outsourcing is an act of moving some of a firm's internal activities and decision responsibilities to outside providers. (Chase, Jacobs & Aquilano, 2004). This means transferring internal operations of a company to an external party to enable it focus on its core business. It can be done locally or internationally depending on the operations of a company.

Outsourcing activities to third parties may also include transferring human resources, technology, equipment and facilities depending on the contract agreed. An entire activity may be outsourced or some elements of the activity may be outsourced with the rest of the activities remaining with the mother company. Identifying a function as a potential outsourcing target and then breaking it down into its components, allow the management of a company to determine which activities are strategic and crucial hence should remain in house and which ones are secondary and therefore should be outsourced. Companies have diverse reasons for outsourcing. Many companies have used outsourcing to gain competitive advantage over their competitors. Some have outsourced activities that they previously dealt with to save on time, progress and get cost advantage (Jacobs, 2009).

1.1.1. Logistics Outsourcing

Logistics outsourcing has become an alternative which major companies consider in order to remain competitive. It is not only driven by the need to reduce costs but also by the need to improve a firm's competitiveness (Sharpe, 1997). It helps to increase efficiency, improve service quality, accountability, add value, decrease lead counts and cash infusion and gain access to world-class capability and sharing. By outsourcing logistics activities, firms can save on capital investments, and thus reduce financial risks. Investment on logistics assets, such as physical distribution centers or information networks which are costly and involves financial risks. Furthermore, the 3PL providers can spread these risks by outsourcing to sub-contractors. (Aktas & Ulengin, 2005).

The concept of logistics outsourcing practices focuses on inbound logistics and outbound logistics. Inbound logistics concentrates on purchasing and arranging inbound movement of materials, parts and or finished inventory from suppliers to manufacturing or

assembly plants, warehouses or retail stores, while outbound logistics relates to the storage and movement of the final product and the related information flows from the end of the production line to the end user. (Bruce & Useem, 2008).

The extent to which third party logistics is sought depend on various factors including geographical coverage, nature of goods, length of contracts, level of commitment and perceived benefits. Traditionally, many companies used to undertake all functions internally. Today the same companies look for third party logistics providers to help them in their non-core business areas where the companies feel that cannot be efficient and effective. (Lambert, Stock & Ellram, 1998).

Excellent companies succeed by focusing on their core business while outsourcing what it regards as none core. (Jacobs, 2009). Competitiveness of any company majorly lies in its core competencies hence the reason for outsourcing. However, there are risks associated with outsourcing, for example, manufactured good on transit are affected with high shipping costs and lead times because of long distances and various security challenges faced in transit. This impact negatively on the quality of services rendered to the customer. (Stevenson, 2007)

There has been an increased global interest in outsourcing of logistics functions. Global distribution companies have been adopting logistics management approach to guide their business operations. This has enabled many of them to focus on their core business and outsource their transport and other logistics activities. A growth in the number of outsourcing partnership has contributed to the development of more flexible organizations based on the competences and mutually beneficial longer-term relationships (Rabinovic, Windle, Dresner & Corsi, 1999). One of the most important reasons why global companies outsource their logistics functions is the need to decrease the number of warehouses, vehicles and excess inventories and to reduce shrinkage, and labor costs. Kenya has a growing outsourcing sector with over 50 registered companies; the Government has also introduced a raft of incentives to make investing in outsourcing businesses a very attractive proposition. In fact, Outsourcing is underscored in Kenya's Vision 2030 initiative as a key pillar and driver of social and economic improvement through job and wealth creation. Outsourcing is generally broken down into two distinct focus areas, Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO). BPO, fundamentally, is the contracting of operations and responsibilities of a specific business function to a third-party service provider. Examples of BPO services is logistics outsourcing. (Kemibaro, 2009)

1.1.2. Container Freight Stations (CFS)

The CFS concept was introduced in 2007 as a measure to decongest the Port. A Container Freight Station (CFS) is "a Common user facility" with public authority status equipped with fixed installations and offering services for handling and temporary storage of import/export laden and empty containers and units carried under Customs control. The first set of CFS' were established in 2000 to handle de-stuffing in the hope of reducing congestion at the port of Mombasa. There are now 10 Container CFS currently in contractual agreement with the Kenya Ports Authority. Container freight stations work as extensions of the port and are required to operate without any additional costs to the KPA published tariff. CFS' operators are expected to clear the full consignment from the port within 48 hours of discharge. (KPA, CFS Policy, 2014).

1.1.3. Mitchell Cotts Container Freight Station

Mitchell Cotts Group started trading in Kenya in January 1995. The companies head office in Mombasa is located very close to the port. Mitchell Cotts Group seized the opportunity when the Kenya Ports authority decided to decongest the port by allowing CFS' to operate as an extension of the port. The Group then established Mitchell Cotts Container Freight Station (CFS) which is located adjacent to Mitchell Cotts head office and warehouse complex. The CFS clears the cargo through the Kenya Port Authority Container Terminal and immediately transfer them to their CFS located just 500 meters from Kenya Ports Authority Gate B. They then off-load the container and de-stuff the goods where applicable and undertake the customs procedures such as verification. All statutory authorities including resident Customs Officer, Port Health, Port Police and Kenya Bureau of Standards personnel have offices within the CFS. They work together with Mitchell Cotts staff to facilitate swift and efficient clearance of goods, consequently saving importers from unnecessary bureaucratic delays and costs.

Shiva Carriers Limited has been Mitchell Cotts Container Freight Station's transporter for over 5 years. The CFS contracted Shiva Carriers to transport imports and exports to and from Kilindini port to its Container Freight Station (CFS) depots in Mombasa and Nairobi for clearance. The transporter has also been contracted to deliver cleared goods to customers within the East Africa region. Mitchell Cotts management opted to outsource logistics function to reduce costs and offer delivery services to their clients.

1.2. Statement of the Problem

Langley Allen & Tyndall (2001) found that, 63% of companies that did not outsource refrained from doing so because they believed that outsourcing would not reduce their costs. Other authors have indicated that logistics outsourcing has become a rapidly growing source of competitive advantage and logistic cost savings. Rabinovich, Windle, Dresner, & Corsi (1999) argued that outsourcing is a common practice among both private and public organizations and has become a major element in business strategy. After exhausting the traditional modes of cost cutting such as staff rationalization and overheads reduction, outsourcing has become the most favored avenue for cost cutting with the idea being to outsource non-core business functions leaving the company to concentrate on its core objectives.

Mitchell Cotts Container Freight Station has been outsourcing its logistics function to Shiva Carriers Limited for over 5 years now. The deal is estimated to be worth 120,000,000 Kenya shillings in favor of Shiva Carriers Ltd. The reasons advanced by the management to outsource are to have competitive advantage over other CFS' by offering delivery services to their customers in East Africa, reducing lead time and cutting on costs. From above studies and the actual status at Mitchell Cotts, it is clear that organizations

are majorly outsourcing to reduce costs and get competitive advantage over their counterparts in the same industry. Other factors that may influence outsourcing of logistics services have not been comprehensively investigated yet they may play significant role in the outsourcing decision. This study intends to fill that gap by investigation factors that influence outsourcing of logistics services by container freight stations in Kenya.

1.3. Objectives

1.3.1. General Objective

The general objectives of this study were to assess factors influencing outsourcing of logistics services in Container Freight Stations in Kenya with specific focus on Mitchell Cotts Container Freight Station.

1.3.2. Specific Objectives

1. To determine the influence of management objectives on outsourcing of logistics services in Mitchell Cotts CFS
2. To assess perceived benefits as motivating factor to outsourcing of logistics services in Mitchell Cotts CFS
3. To assess perceived risks as motivating factor to outsourcing of logistics services in Mitchell Cotts CFS
4. To assess the nature of logistics services and their influence on logistics outsourcing in Mitchell Cotts CFS

1.4. Research Questions

1. How does management objectives influence the outsourcing of logistics services in Mitchell Cotts CFS?
2. How does perceived benefits act as motivating factor to outsourcing of logistics services in Mitchell Cotts CFS?
3. How does risks associated with outsourcing logistics services influence outsourcing decisions in Mitchell Cotts CFS?
4. How does the nature of logistics services influence logistics outsourcing in Mitchell Cotts CFS?

1.5. Justification

The study findings is significant to Container Freight Stations and the management of Mitchell Cotts CFS as it unearths factors influencing outsourcing in CFS which in essence is the reason for carrying out this research. The study provides background information to other researchers and scholars who may want to carry out further research in this area. Academically, the proposed study has met the partial requirements for the award of Master's Degree in Procurement and Logistics. It also contributes additional literature in the field of logistics outsourcing and the factors that influence companies to outsource.

1.6. Importance of the Study

This study findings and recommendations will be of great significance to directors and managers since it will assist in revealing the underlying factors at Mitchell Cotts Container freight station. The study will also be of great importance to academicians and researchers since it will form basic points and basis for further research.

1.7. Scope

The scope of the study was limited to Mitchell Cotts Container freight station, located along Kibarani - Mombasa which is one of the leading CFS' in East Africa. The target population was all members of staff. The main objective of the study was to identify factors influencing outsourcing of logistics services in Container Freight Stations in Kenya. The study focused on key identified areas that were to be addressed under each specific objective. The researcher undertook activities within the scope of the specific research objectives to ensure that the study findings contribute towards the achievement of the general objective of the study.

1.8. Limitations

The researcher faced difficulty in getting responses from senior managers as they did not have much time to respond to the questionnaire due to their tight schedule. Balancing between work and research limited the time available for collection and analyses of data. To overcome the above limitations, I gave the managers sufficient time to respond to the questionnaire. I also took my annual leave in order to concentrate on the research project.

2. Literature Review

2.1. Introduction

This chapter introduces the review of the research study; it focuses on past studies on factors influencing outsourcing of logistics services. It presents the relevant literature which points out various issues in outsourcing of logistics services. It highlights the theoretical framework, conceptual framework and research gaps.

2.2. Theoretical Review

Outsourcing is one of the responsibilities of purchasing departments and plays a critical role in an organization's survival and growth. Despite the ongoing debate over the benefits and risks of outsourcing for businesses, outsourcing has become a common approach that purchasing managers cannot ignore. (Boer, Labro and Morlacchi, 2001). The top ten reasons why companies would outsource are as follows; reduce and control operating cost, improve company focus, gain access to world class capability, free resources for other

purposes, resources are not available internally, accelerate re-engineering benefits, non-core function that is too complex to manage, make capital funds available, share risks, and cash infusion. (Outsourcing Institute Executive Survey, 2006)

2.2.1. Transaction Costs Analysis Theory

Transaction cost refer to the costs of physical and human resources incurred in order to complete an exchange of goods and services between parties. Factor that contribute to this costs include opportunistic behavior, the search for the true prices at which purchases ought to take place and the need to discover the true quality of goods and services. In transaction cost economics, a firm's ownership decision focus on minimizing the sum of its transaction and production costs (Williamson, 1957). Excessive costs may cause transactions to be transferred to other institutions in turn internalize market transactions by governing them through long – term contracts that can create mutual dependence, improve reciprocal control, curb opportunism and allow for better cooperation between the parties involved (Williamson, 1985).

2.2.2. Agency Theory

Agency theory include that under conditions of incomplete information and uncertainty, (which characterizes most business settings), two agency problems arise, adverse selection and moral hazard. Adverse selection refers to the problem that the principal cannot determine if the agent accurately represents his ability to do the work for which he is paid; moral hazard refers to the problem that the principal cannot be sure if the agent has put forth maximum effort (Eisenhardt, 1989). These two problems give rise to a number of methods of monitoring, which may include organizational and capital structure, remuneration policies, accounting techniques and attitude towards risk taking. Agency costs refer to the total costs of administering and enforcing these arrangements, as well as resolving any conflict that may ensue. (Bazel, 1997).

2.2.3. Resource Based Theory

The decision to outsource is driven by the need to focus on the core competencies by engaging firms that are more specialized to carry out peripheral operations. An alternative explanation for outsourcing recognizes that in addition to costs, resources and competence based considerations are increasingly important in today's business environment (Penrose, 1959). An organization must secure an efficient bundle and flow of the right type of resources from its environment in order to survive and improve its operational performance (Rungtusanatham, Salvador, Forza, & Choi, 2003). The resource – based approach concentrates on clarifying circumstances that must exist in order for resources to give rise to sustained competitive advantage. This approach regards firms as collections of heterogeneous resources and capabilities and examines why they exist and what determines their scale and scope (Lippman & Rumelt, 1982).

2.2.4. General Systems Theory

Systems theory focusses on organization and interdependence of relationships. The works of Bertalanffy (1968) signaled the use of systems perspective to analyze a variety of complex operations, many of which are based on the central theme that businesses are systems comprising processes. He argues that it is necessary to view and analyze different parts of complex operations as a whole. A system is characterized by the interactions of its components and the nonlinearity of those interactions. The notion of a system may be seen as simply a more self-conscious and generic term for the dynamic interrelatedness of components. This school of thought regards outsourcing in structural terms with a view that the performance of organizations is no longer wholly dependent on what they do internally, but is affected by the collective performance of firms connected through business processes and relationships (Takeishi, 2001).

2.2.5. Network Theory

In the network theory, forms of collaborations are based on the key concepts of economic motivations, power and trust (Uzzi, 1997). Network theory acknowledges that firms sometimes depend on resources controlled by other firms. Access to these resources can be achieved only by interacting with these firms, forming relationships and subsequently, networks across the value pipeline. This implies that different organizational boundaries overlap in the process of bringing finished products to the end consumer (Barney, 1999). The players in such networks therefore invest in medium to long-term relationships that may change in relative importance over time yet increase in stability as goals and tactics evolve. Within the network perspective, the firm's existence depends on the advantages of creating and redeploying specific assets. The magnitude of these advantages depends upon the strength of the linkages with external parties. The individual firm, through mutual interactions with other firms, is therefore exposed (and gains access) to resources owned and controlled by other firms. Within this perspective, the firm seeks the efficiency of the entire network through reciprocating and influencing interaction with other firms in the environment within which it operates. This continued interaction is an important factor in the development of new resources and skills, requiring a change in focus away from how the firm allocates its internal resources to how it relates with other players within its network sphere. The major challenge is to offer a genuine tradeoff between the costs of internal operations and benefits of external integration (Madhok, 1996).

2.3. Conceptual Framework

The study used management objectives, perceived benefits, perceived risks and nature of logistics services as independent variables while outsourcing of logistics services as dependent variable.

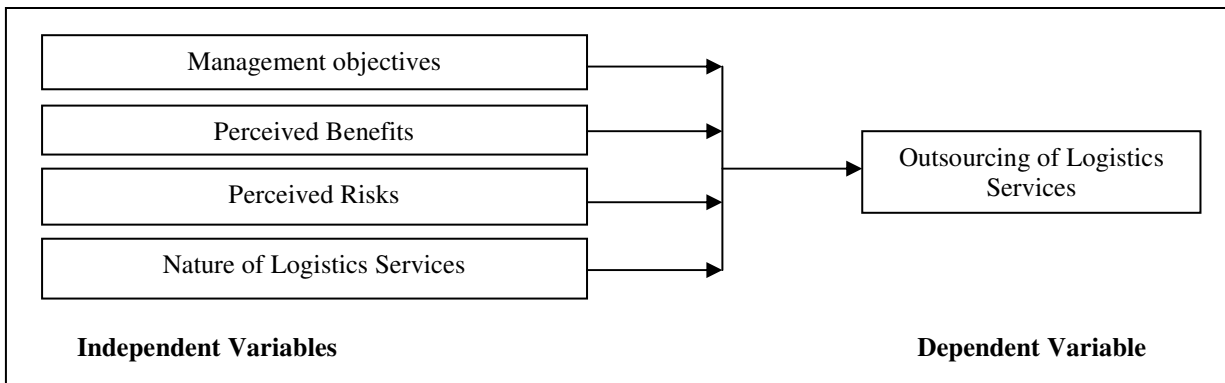


Figure 1: Conceptual Framework

2.4. Factors Influencing Outsourcing of Logistics Services in Container Freight Stations

Outsourcing is the subcontracting of a company non – core function such as product design of manufacturing company to a third party company. The activity involves mainly two parties. The client company outsources logistics activities and the outsourcing service provider performs the outsource activities. The decision to outsource is often made in the interest of lowering a firm’s cost and conserving energy that is directed towards the core functions of the firm in order to make efficient use of labor, capital, technology and resources (Vallespir & Kleinhanns, 2001)

2.4.1. Management Objectives

Various management objectives play a major role in determining whether to outsource or carry out the function in house. These include;

Cost Reduction, outsourcing logistics activities involves the use of third party logistics providers for all or part of organizations logistics operations. The phenomenon describes an activity carried out by a logistics service provider for its clients (Vallespir et al., 2001). Lambert, Stock & Ellram (1999), opines that outsourcing logistics activities has increasingly become an effective way to reduce costs and spread risks for traditional vertically integrated firms. Economic advantages accrued as a result of outsourcing logistics activities are elimination of infrastructure investments, access to world class process, product services, technology, improved ability to react quickly to changes in business environments, risk sharing, better cash flow, reducing operation costs, exchanging fixed costs with variable costs, access to resources not available in the organization (Person & Virum, 2001).

According to Conner & Prahalad (1996), most corporations believe that in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue increases. Grant (1996) said that as companies seek to enhance their competitive position in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core business.

Enhance Flexibility, the importance of outsourcing becomes particularly evident when companies look critically at their internal structure and resources. Outsourcing provides companies with greater capacity for flexibility especially in the purchase of rapid developing new technologies. Firms that outsource logistics activities can save on capital investments and therefore reduce financial risks. Investment on logistics assets such as physical distribution centers or information networks usually needs large lump sum of money, which involve high financial risk. (Harrison & Van Hoek, 2002).

Increase Productivity, according to Baumol (1967), one of the major reasons for the growth of the services sector could be linked to services outsourcing in the manufacturing industries. The fact that manufacturing industries could outsource their less efficient service activities and focus on their core competences led to significant productivity gains in the industry and increased the already existing productivity gap between the manufacturing industry and the service sector. A phenomenon that was later called “Baumol’s disease”.

(Fixler and Siegel, 1999) provide some insights into outsourcing and its productivity impact on the service sector. Their evidence suggests that outsourcing led to short run reduction in services sector productivity but productivity improvements can be expected especially for business services once outsourcing of services by manufacturing firms subside relative to production capacity in the service sector. They also argue that productivity in the services sector will increase as outsourcing by service firms increases although they provide no direct evidence of this.

Management Considerations, in the modern business environment, managing any function is difficult, in particular, middle level management. There is a continuing pressure to reduce costs and improve productivity with fewer resources. People are difficult to manage and some have work ethics that often is not compatible with the organization’s goals (Lynch, 2000)

Specialized Services, specialized services are becoming the order of the day other than the exception. A number of firms have gradually evolved into businesses that offer specialized services for specific industries. Examples of these are Just in Time, Order Consolidation, Packaging, Order Fulfillment and Electronic Commerce. (Lynch, 2000).

Improve Customer Service, the biggest hurdle most companies face is deciding whether a third party logistics provider can handle customer service side better than they can. Do they deliver same level of specialized service than in house department offered over the years? Most times the overwhelming answer is yes and the resounding question is why didn't we do this sooner? (Clowdis, 2001).

2.4.2. Perceived Benefits

Varieties of benefits in relation to 3PL is reported in the literature. These can be classified as strategy, finance and operations related. Outsourcing non-strategic activities enables organizations to focus on core competence and exploit external logistical expertise (Sink & Langley, 1997). 3PL providers can also contribute to improved customer satisfaction and provide access to international distribution networks (Bask, 2001). Logistics outsourcing offers many cost related advantages such as reduction in asset investment, labor and equipment maintenance costs (Bardi & Tracey, 1991). LSP' serve multiple customers and are able to utilize capacity better and spread logistics costs, thus achieving economies of scale (Damme & Ploos, Amstel, 1996). On advantages of 3PL, evidence is contrasting. Reported benefits include reduction in inventory levels, order cycle times, lead times and improvement in customer service (Bhatnagar & Viswanathan, 2000)

According to Lieb & Randall (2004), outsourcing logistics activities has become a rapidly expanding source of competitive advantage and logistics cost saving. He reported that some firms routinely have achieved 30 – 40 % reduction in logistics costs and have been able to greatly streamlined global logistics processes because of outsourcing. Logistics significantly contributes to company's competitive advantage. The most obvious reason behind outsourcing logistics activities is to provide very effective means of reducing costs by contracting with a third party who can provide better services and high quality at lower cost. By reducing costs through outsourcing, a firm gains the ability to improve operating efficiency, increase return on assets and improve profitability. Outsourcing is also an effective means of generating new revenue. A firm that outsources can contract with a third party to provide products and services that it cannot offer on a profitable basis. This form outsourcing enables a client firm to test market demand for services or product if it is less risky, more cost effective way than creating the service internally with scarce resources.

2.4.3. Perceived Risks of Outsourcing

The most often cited risks are associated with loss of control over the logistics function and loss of in house capability and customer contacts (Ellram & Cooper, 1990). However, it is usually the case that shippers employ a mixed strategy regarding logistics and retain important logistics activities (such as order management) in house (Wilding & Juriado, 2004). While it is reported that users of 3PL enhance their flexibility with regard to market (investments) and demand (volume flexibility) changes, lack of responsiveness to customer needs is also cited as a problem of outsourcing (Damme & Ploos, 1996). However, other authors cite problems with respect to service performance, disruption to inbound flows, inadequate providers' expertise, inadequate employee quality, sustained time and effort spent on logistics, loss of customer feedback and inability of 3PL providers to deal with special product needs and emergency circumstances (Ellram & Cooper, 1990).

According to Wang & Regan (2002), risks involved when participating in logistics outsourcing include; the possibility of inefficient management, management has to know how to manage contracts and relationships with the third party logistics provider. If the logistics activity had been badly managed in the first place, it may not be possible for the logistics manager of the firm to be any better at managing an external provider. Once logistics outsourcing has been initiated, managing logistics operations becomes a very difficult task. Other risks include;

Latent Information Asymmetry, often there exists an information asymmetry in logistics outsourcing. This happen because the third party logistics provider rarely has complete information about the user, similarly the user may have incomplete information about the third party logistics provider.

Loss of Logistics Innovative Capacity, when a firm has outsourced its logistics services, its logistics innovative ability may be impaired. Over the long term, if a firm wants to maintain its' comprehensive complete competencies, it will have to find new ways of providing logistics services for the business. External sourcing does not always guarantee innovation.

Loss of Control over the Third Party Logistics Provider, Almost all collaborative projects result in some loss of control. In outsourcing arrangements, partial control of a project inevitably passes from the customer to the vendor. The extent to which the firm may effectively control an outsourced logistics business will greatly be determined by the information received and early detection of problems. Since the information available to the logistics manager would be less comprehensive than it would be if the logistics business was conducted in house, a lack of effective communication could ensue as a result. This could lead to serious problems of quality and delays, as well as to misunderstanding and even mistrust.

2.4.4. Nature of Logistics Services Outsourced

Literature on core competencies brought the importance of outsourcing activities for which expertise cannot be provided in house within organizations to the forefront of organization strategy. Muller (1993) proposed two basic types of logistics outsourcing service providers, i.e., operations based and information based third party logistics vendors. He later modified this classification scheme by suggesting the following four types of vendors; Asset based vendors offering dedicated physical logistics services primarily using their own assets, typically a truck fleet or group of warehouses or both. Management based vendors are involved in offering logistics management services through systems databases and consulting services, often acting as subcontracted traffic departments, either for part, or all, of client's business segments. These firms do not own transportation or warehouse assets. Integrated Vendors own assets, typically trucks, warehouses or a combination of both. They are however, not limited to using these assets and will contract with other

vendors on an as needed basis. Administration based vendors are firms which mainly provide administrative management services such as freight payment.

Kotabe (1998) argues that, there could be negative long-term consequences of outsourcing resulting from a company's suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long term competitive advantages without engaging in the development activities of the constantly evolving design and engineering technologies.

2.5. Measurement of Delivery of Outsourcing of Logistics Services

Delivery of Outsourcing of Logistics Services can be measured by how well the firm achieves its logistical objectives. The set goals in logistics are central in operational activities of the firm. Various metrics can be used in logistical measurement. Among the most common include bench marking and the use of set standards. Benchmarking within the industry best practices provides an opportunity for evaluation. In addition benchmarking can be done within the organization itself, i.e. by making comparison with the previous achievement of logistical objectives. Benchmarking can also be applied to measure achievements against best practices within the industry in relation to logistical decisions. Standards can also be applied for comparison purposes on Delivery of Outsourcing of Logistics Services.

2.6. Critique of Existing Literature

At the theoretical level, the concept of outsourcing has been dealt with in many research works which have given numerous and varied definitions (Frazil, 2005). There are numerous literature advocating for outsourcing of logistics. However, the actual realization of potential benefits is scantily documented. In this regard, the issues is similar to what has been observed in outsourcing in general, where it is claimed that cost savings and other benefits tend to be taken for granted, but detailed analyses of actual outcomes and potential side effects are hard to find (Berggren & Bengtsson, 2004).

There are numerous claims concerning the potential benefits of logistics outsourcing arrangements (Bhatnagar & Viswanathan, 2000). There is no doubt that the outcome of third party logistics shows mixed results. Lambert et al (1999) conclude that, while the benefits of TPL are well documented, the pitfalls and problems have received less attention. Moreover, it is argued that there is clear evidence that in some cases logistics outsourcing has become a source of corporate failure and disappointment.

When it comes to the reasons for the problems, terminations and back sourcing, the most obvious factor seems to be that expectations concerning financial benefits have not been met, for example, Lieb & Randall, (1996) concludes that, outsourcing companies have difficulties in estimating the true costs of logistics outsourcing. These problems are accentuated by the fact that another study showed that some outsourcing firms were uncertain even about the true costs of their own operations (Bagchi & Virum, 1996). Since cost reductions is always on the top of the list of expectations of outsourcing benefits these conditions represent major drawbacks. Again this set of affairs is in line with findings concerning outsourcing in general and the causes of the unrealized expectations concerning cost reductions. Typically these conditions are explained by the conclusion that the low unit price that may be gained through outsourcing is only one part of a very complex equation and must be considered against the direct, indirect and hidden costs that are associated with such shifts in the division of labor (Smylis, 2006).

Inadequate cost estimations seem to be caused by incomplete analysis of what outsourcing of logistics activity actually implies. Outsourcing will have other consequences than making a specific activity less expensive to undertake or more efficient in other ways. Moving an activity from one company and one place to another company at another place will also impact on the total pattern of activities of which the outsourced activity is part. When it comes to outsourcing in general, the lack of strategic analysis of potential consequences is perceived to be a main reason for failures (Venabales, 2005). The situation seems to be the same in logistics. Ackerman (1996) concludes in a paper about pitfalls in logistics partnerships that tend to occur because buyer and seller have not reached a realistic understanding of what the change actually implies.

2.7. Research Gaps

According to Selviaridis & Spring (2007), third party logistics service providers emerged out of companies previously involved in warehousing and transportation. In the early 1990s, firms formerly specializing in express parcel deliveries entered the arena (e.g. DHL, UPS, TNT and FedEx). These were later accompanied by firms originally focusing on financial services, IT-services and management consulting which brought their competencies in information system and supply chain planning. for these reasons an alternative definition of TPL has been launched, (3PL) is a relationship between a shipper and third party which compared with basic services, has more customized offering encompassing broader number of service functions and is characterized by a longer term, more mutually beneficial relationships. (Murphy & Poist, 2000). This extended definition of TPL takes some of the changing conditions into consideration like the greater scope of the services required by customers and the enhanced role the relationship between the parties involved.

The concept of outsourcing of services has been expounded both in the literature as well as from the empirical studies done on the subject area. It was found out that outsourcing of services has become a common practice among firms worldwide and this is due to the various benefits that accrue to a firm as a result of outsourcing. Firms evaluate outsourcing to determine if current operation costs can be reduced and if saved resources can be reinvested in more competitive processes. Contracting out logistics function to a firm with competitive advantages in terms of reliability, quality and cost was found out to be the main driver of outsourcing. However the various studies covered have not extensively delved into other factors other than cost and getting competitive advantage that influence outsourcing of logistics. As a result, this study aims to investigate factors influencing logistics outsourcing in Container freight stations in Kenya.

2.8. Summary

Previous studies have focused on either the outsourcing firm or the provider of the service. In these studies, it is often claimed that the relationship between the two have decisive impact on the outcome of the outsourcing arrangement. The previous studies have also provided that companies majorly outsource their logistics function because they want to concentrate on their core competences and consequently tap into the expertise of professional logistics firms which enables them to significantly reduce costs, lead time and offer customer service to their clients, they argue that this are the main reasons firms outsource because it offers them competitive advantage against their counterparts in the same line of business. Others have stated that firms outsourcing their logistics functions, risk losing control over this very important function, they further argue that firms are not guaranteed that third party logistics providers will deliver efficient and effective services as agreed and this may be an added cost to doing business. This study has evaluated various theories that try to explain the reasons behind outsourcing of services to a third party.

3. Research Methodology

3.1. Introduction

This chapter discusses research design, target population, sample and sampling technique, instruments, data collection procedure, pilot test, data processing and analysis.

3.2. Research Design

It is a grand plan of approach to a research topic. Greener (2008) argues that descriptive research design is used when the problem is structured i.e., it gives answers to who, where, what, how and when questions. It is used to make clear distinctiveness of a population or an observed fact. According to Zinkmund (2000), descriptive research studies are based on some previous understanding of the nature of the research problem. This study applied a descriptive research design.

3.3. Target Population

Ngechu (2006) states that, a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which will be investigated. Thus the population should fit a certain specification, and the population should be homogenous. The target population was all 350 employees of Mitchell Cotts Container Freight Station. (J. Maritim, personal communication, February 11, 2005)

3.4. Sampling Frame

According to Mugenda and Mugenda, (2003), sampling design refers to a research design that indicates how cases are to be selected for observation or as respondents. In descriptive study a sample size of ten percent (10%) is representative enough to generalize characteristics being observed. Sampling technique is the process of selecting respondents, who are identified as representative of the target population

Category	Target population	Sample size	Percentage of sample size
Clearing and Forwarding	80	08	10
Finance	40	04	10
Warehousing	90	09	10
Procurement	40	04	10
Logistics	100	10	10
Total	350	35	10%

Table 1: Sample size

3.5. Sampling and Sampling Techniques

Stratified random sampling technique was used since it improves population representativeness in a study. It involved dividing target population into subgroups and selecting a respondent from each subgroup.

3.6. Data Collection Instruments

According to Ngechu (2006). There are many methods of data collection and instruments. The choice of tools and instruments depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. The study used questionnaires with open and closed ended questions which were standardized to reduce biasness of analyzing and interpretation of the data, this ensured reliability, generality and validity of the results.

3.7. Data Collection Procedures

The study used self-administered questionnaires; the researcher delivered the questionnaires to the respondents and briefed them on his expectations. He then left the questionnaire with the respondents and gave them sufficient time before picking them up for analyses and collation of data. Secondary data was collected from past reports, journals and books.

3.8. Pilot Test

The research instrument was pretested at Mitchel Cotts CFS. The essence of the pilot testing was to get preliminary results on the understanding of the questionnaire by the respondents which aided in further improvement of the instrument. Respondents in the pilot testing stage were not to be involved in answering the final questionnaire. The Cronbach's Alpha results were as follows;

Item/Variable Tested	Cronbach's Alpha	Decision
Management objectives	0.795	Accepted
Perceived benefits	0.776	Accepted
Perceived risks	0.7111	Accepted
Outsourcing of logistics services	0.843	Accepted

Table 2: Cronbach's Alpha Results

3.9. Data Processing, Analysis and Presentation

The qualitative and quantitative data collected from the field were analyzed using Statistical Package for Social Sciences (SPSS) using mean, standard deviation and coefficient of variation and presented by use of tables. This made it very easy to compare the various parameters which influence outsourcing decision process.

The researcher used multiple regression analysis to show the effect and influence of the independent variables on the dependent variable.

The relationship was follows;

- $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$
- Where;
- Y = Outsourcing of logistics services,
- α = Constant,
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Partial regression coefficients,
- X_1 = Management objectives,
- X_2 = Perceived benefits,
- X_3 = Perceived risks,
- X_4 = Nature of logistics services,
- ε = Error term.

4. Research Findings and Discussions

4.1. Introduction

This chapter gives a presentation of the findings made during the analysis. The objective of the study was to assess factors influencing outsourcing of logistics services in Container Freight Stations in Kenya with specific focus on Mitchell Cotts Container Freight Station. From the 35 questionnaires administered, 32 of them representing 91.4 % were returned. The data collected was analyzed for mean, standard deviation and coefficient of variation.

4.2. Demographics Characteristics of Respondents

Category	Frequency	Percentage
Clearing and Forwarding	08	25.000
Finance	02	6.250
Warehousing	09	28.125
Procurement	04	12.500
Logistics	09	28.125
Total	32	100.0

Table 3: Respondents' Department

The study shows that majority of respondents were from logistics, warehousing both with over 28% followed by clearing and forwarding at 25% then procurements at 12% and finance at over 6%. This shows that departments which seem to have relevant information in relation to the topic of the study were given a chance.

Category	Frequency	Percentage
Top management	06	18.75
Middle management	08	25.00
Supervisory	12	37.50
Lower level	06	18.75
Total	32	100.0

Table 4: Respondents' Position

The findings of the study shows that top management level were offered a good chance to contribute to the topic as indicated by a percentage of over 18% due to the fact that they are major decision makers in the organization. Middle management were at 25%, indicating a considerable chance, followed by supervisory at 37% and lower level cadre at 18%.

Category	Frequency	Percentage
Masters	06	18.750
Degree	09	28.125
Others	17	53.125
Total	32	100.0

Table 5: Respondents' Education Level

Demographic characteristics of respondents indicates high level of education for management level staff of Mitchell Cotts Limited with degree accounting for the highest at over 28%, masters at 18% and others at 53 %. This is an indication of high level of education at Mitchell Cotts Limited.

Category	Frequency	Percentage
0 – 5 years	04	12.500
5 – 10 years	11	34.375
10 – 15 years	12	37.500
Over 15 years	05	15.625
Total	32	100.0

Table 6: Respondents' Work Experiences

Demographic characteristics of respondents indicate the work experiences as follows in Mitchell Cotts Limited; majority 37.5% has worked for 10 -15 years, followed by 5-10 years at 34% and 0-5 years at 12% and over 15 years accounting for 15%. This indicates that majority of management employees are well conversant with outsourcing issues at Mitchell Cotts Limited.

4.3. Factors Influencing Outsourcing

4.3.1. Management Objectives

	Statements	Mean	Standard Deviation	Coefficient of Variation
B1	Cost objective is a major issue in making outsourcing decisions	4.28	0.571	0.133
B2	Outsourcing to third party is better than in-house logistics	4.22	0.602	0.142
B3	Focus on core competencies is a major issue in outsourcing	4.53	0.382	0.084
B4	General management decisions is major issue in making outsourcing decisions	3.42	0.985	0.288

Table 7: Level of agreement to Management objectives that influence outsourcing

The first objective was to determine the influence of management objectives on outsourcing of logistics services in Mitchell Cotts CFS. Respondents were required to respond and give their opinions in relation to some set questions in relation to Management objectives and outsourcing influence and their opinions were rated using mean, standard deviation and coefficient of variation. The opinion in agreement that cost objective is a major issue in making outsourcing decisions scored a mean of 4.28 a standard deviation of 0.571 and a coefficient of variation or dispersion of 13.3%. This indicates a high level agreement in opinion. Respondents were also in agreement that outsourcing to third party is better than in-house logistics as indicated by a mean of 4.22 a standard deviation of 0.602 and a dispersion of 14.2%. There was agreement that focus on core competencies is a major issue in outsourcing with a mean of 4.53 and a low dispersion of 8.4%, however respondents were somehow neutral on the issue of general management decisions as a major issue in making outsourcing decisions as indicated by a mean of 3.42 and a dispersion of 28.8%.

On the issue of other objectives that influence outsourcing, respondents mentioned cost reduction, flexibility and higher service delivery among others.

4.3.2. Perceived Benefits

	Statements	Mean	Standard Deviation	Coefficient of Variation
C1	Third party logistics provides excellent services	4.42	0.499	0.112
C2	Cost savings is as a result of outsourcing	4.29	0.614	0.143
C3	Logistics outsourcing allow resource focus on other core business	4.19	0.639	0.152
C4	Logistics outsourcing lead to higher service levels	3.75	1.116	0.309

Table 8: Element of perceived benefits that influence outsourcing

The second objective was to assess perceived benefits as motivating factor to outsourcing of logistics services in Mitchell Cotts CFS. The opinion in agreement that third party logistics provides excellent services scored a mean of 4.42 a standard deviation of 0.499 and dispersion of 11.23%. This indicates a high level agreement in opinion. Respondents were also in agreement that cost savings is as a result of outsourcing as indicated by a mean of 4.29 a standard deviation of 0.614 and a dispersion of 14.3%. There was agreement that logistics outsourcing allow resource focus on other core business with a mean of 4.19 and a low dispersion of 15.2%, however respondents were somehow neutral on the issue of logistics outsourcing leading to higher service levels as indicated by a mean of 3.75 and a dispersion of 30.9%. On other perceived benefits influence the organization in making outsourcing decisions, respondents had no idea on the same.

4.3.3. Perceived Risks

	Statements	Mean	Standard Deviation	Coefficient of Variation
D1	Logistics outsourcing lead to loss of control	3.74	0.715	0.191
D2	Logistics outsourcing lead loss of customer contact	2.16	1.003	0.464
D3	Logistics outsourcing contribute to inefficient management by the 3PL	2.29	1.189	0.519
D4	Outsourcing risks is a major influence factor in outsourcing	4.03	0.657	0.163

Table 9: Component of perceived risk that influence outsourcing

The third objective was to assess perceived benefits as motivating factor to outsourcing of logistics services in Mitchell Cotts CFS. The opinion in agreement outsourcing risks is a major influence factor in outsourcing scored a mean of 4.03 a standard deviation of 0.657 and dispersion of 16.3%. This indicates a high level agreement in opinion. Respondents were somehow neutral on the issue of logistics outsourcing leading to loss of control as indicated by a mean of 3.74 and a dispersion of 19.1%. Respondents were in disagreement with the statement that logistics outsourcing lead loss of customer contact as indicated by a low mean of 2.16. In addition their opinions were in disagreement with the statement logistics outsourcing contribute to inefficient management by the 3PL as indicated by a low mean of 2.29. On the criteria used by organization to minimize risks from logistics outsourcing, respondents mentioned the issue of cost versus benefit analysis.

4.3.4. Nature of Logistics Services

	Statements	Mean	Standard Deviation	Coefficient of Variation
E1	Nature of services influences what to be outsourced	4.84	0.703	0.145
E2	It is critical to understand the type of services before outsourcing	4.16	0.820	0.197
E3	Core and non-core services demand different treatment in outsourcing	4.74	0.640	0.135
E4	Outsourcing some services may expose the organization	3.39	0.301	0.088

Table 10: Component of nature of logistics that influence outsourcing

The fourth objective was to assess the nature of logistics services and their influence on logistics outsourcing in Mitchell Cotts CFS. The opinion in agreement that nature of services influences what to be outsourced scored a mean of 4.84 a standard deviation of 0.703 and a coefficient of variation or dispersion of 14.5%. This indicates a high level agreement in opinion. Respondents were also in agreement that it is critical to understand the type of services before outsourcing as indicated by a mean of 4.16 a standard deviation of 0.820 and a dispersion of 19.7%. There was agreement that core and non-core services demand different treatment in outsourcing as indicated with a mean of 4.74 and a dispersion of 13.5%, however respondents were somehow neutral on the issue of outsourcing some services contributing to exposure of the organization as indicated by a mean of 3.39 and a low dispersion of 8.8%.

4.4. Outsourcing of Logistics Services in CFS

	Statements	Mean	Standard Deviation	Coefficient of Variation
F1	The organization makes outsourcing decisions based on management objectives	4.16	1.068	0.256
F2	The organization makes outsourcing decisions based on perceived benefits	4.03	1.016	0.252
F3	The organization makes outsourcing decisions based on perceived risks	4.13	0.657	0.159
F4	The organization makes outsourcing decisions based on nature of outsourced services	3.71	0.860	0.231

Table 11: Outsourcing of Logistics Services in CFS

On outsourcing of Logistics Services in CFS, respondents were required to respond to some items related to outsourcing of logistics services in CFS. Respondents opinions indicates that the organization makes outsourcing decisions based on management objectives

as indicated by a mean of 4.16 and a dispersion of 25.6%. Respondents were in agreement that the organization makes outsourcing decisions based on perceived benefits as supported by a mean of 4.03 and in addition further supported the statement that the organization makes outsourcing decisions based on perceived risks as indicated by a mean of 4.13. However the respondents were neutral on the statement that the organization makes outsourcing decisions based on nature of outsourced services as indicated by a mean of 3.71.

On the opinion on the nature of logistics services that influence outsourcing the issue of whether the service is core or none core was identified as critical.

4.5. Descriptive Analysis Summary

	Mean	Std. Deviation	N
Outsourcing of logistics services	4.3339	.7144	32
Management objectives	4.110	.8532	32
Perceived benefits	4.119	.7509	32
Perceived risks	3.965	.8955	32
Nature of logistics services	4.196	.6183	32

Table 12: Descriptive Statistics Summary

Table 12 above shows the summary of the mean for the dependent variable factors influencing outsourcing and the dependent variables management objectives, perceived benefits, perceived risks and nature of logistics services for the 32 computed variables. The data indicates agreement of opinions from respondents.

4.6. Multiple Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
	B	Std. Error	Beta			Zero-order	Partial	Part
(Constant)	.418	.012		4.11	.00			
Management objectives	.318	.017	.302	2.94	.01	.728	.120	.011
Perceived benefits	.252	.015	.211	2.71	.03	.761	.059	.015
Perceived risks	.192	.011	.185	3.41	.00	.686	.491	.110
Nature of logistics services	.251	.020	.210	3.91	.04	.733	.422	.012

Table 13: Multiple Regression Analysis Coefficients

In relation to the variable management objectives, the results in Table 13 above indicate that management objectives has a significant influence on outsourcing of logistics services in CFS. This is supported by regression analysis t-value of 2.94 which is greater than the critical value 2.0378 and a p-value of 0.01 at 95% level of significance which is less than 0.05. By comparing the scores of calculated t-value and critical t; Calculated t-values was 2.94 for management objectives, which is greater than the critical $t_{32-1} (0.05) = 2.0378$. This indicate that management objectives has a significant influence on outsourcing of logistics services in CFS. In the modern business environment, managing any function is difficult, in particular, middle level management. There is a continuing pressure to reduce costs and improve productivity with fewer resources. People are difficult to manage and some have work ethics that often is not compatible with the organization's goals (Lynch, 2000). This supports the issue of management objective as key in logistical decisions.

In relation to the variable perceived benefits, the results in Table 13 above indicate that perceived benefits has a significant influence on outsourcing of logistics services in CFS. This is supported by regression analysis t-value of 2.71 which is greater than the critical value 2.0378 and a p-value of 0.03 at 95% level of significance which is less than 0.05. By comparing the scores of calculated t-value and critical t; Calculated t-values was 2.71 for the variable perceived benefits, which is greater than the critical $t_{32-1} (0.05) = 2.0378$. This indicate that the variable perceived benefits has a significant influence on outsourcing of logistics services in CFS. This is in agreement with Lieb & Randall (2004) who identifies outsourcing logistics activities as a rapidly expanding source of competitive advantage and logistics cost saving.

In relation to the dependent variable perceived risks, the results in Table 13 above indicate that perceived benefits has a significant influence on outsourcing of logistics services in CFS. This is supported by regression analysis t-value of 3.91 which is greater than the critical value 2.0378 and a p-value of 0.000 at 95% level of significance which is less than 0.05. By comparing the scores of calculated t-value and critical t; Calculated t-values was 3.91 for the variable perceived risks, which is greater than the critical $t_{32-1} (0.05) = 2.0378$. This indicate that the variable perceived risks has a significant influence on outsourcing of logistics services in CFS. Wang & Regan (2002) identifies risks involved when participating in logistics outsourcing as the possibility of inefficient management and management has to know how to manage contracts and relationships with the third party logistics provider to minimize risks.

In relation to the dependent variable nature of logistics services, the results in Table 13 above indicate that the dependent variable nature of logistics services has a significant influence on outsourcing of logistics services in CFS. This is supported by regression

analysis t-value of 3.91 which is greater than the critical value 2.0378 and a p-value of 0.04 at 95% level of significance which is less than 0.05. By comparing the scores of calculated t-value and critical t; Calculated t-values was 3.91 for the variable nature of logistics services, which is greater than the critical $t_{32-1} (0.05) = 2.0378$. This indicate that the variable nature of logistics services has a significant influence on outsourcing of logistics services in CFS.

Correlations-Pearson Correlation					
	Outsourcing of logistics	Management objectives	Perceived benefits	Perceived risks	Nature of logistics services
Outsourcing of logistics	1.000	.728	.661	.786	.733
Management objectives	.728	1.000	.722	.636	.716
Perceived benefits	.761	.682	1.000	.673	.646
Perceived risks	.686	.736	.703	1.000	.923
Nature of logistics services	.733	.736	.706	.723	1.000

Table 14: Correlation Analysis

The correlation analysis Table 14 shows the relationship between the independent variables, management objectives, perceived benefits, perceived risks, nature of logistics services and the dependent variable outsourcing of logistics services. The analysis indicates the coefficient of correlation, r equal to 0.728, 0.761, 0.686 and 0.733 for, management objectives, perceived benefits, perceived risks and nature of logistics services respectively. This is an indication of positive relationship between the dependent variables and independent variable.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.836 ^a	.698	.623	.1004	.618	211.142	6	26	.000

Table 15: Regression Analysis Summary

Predictors: Management objectives, Perceived benefits, Perceived risks, Strategic Nature of logistics services;
Dependent variable: Outsourcing of logistics services.

Table 15 shows the regression model summary indicating the coefficient of determination R Square as 0.698. This means that 69.8% of the relationship is explained by the identified four factors, management objectives, perceived benefits, perceived risks and nature of logistics services. The rest 30.2% is explained by other factors not dealt with in this study.

4.7. Anova

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	31.234	6	5.896	211.142	0.000
Residual	0.663	26	0.022		
Total	31.897	32	5.908		

Table 16: Anova

The study needed anova to establish the significance of the multiple regression model. The independent variable are considered significant if the P-Value is less than or equal to 0.05 (96% confidence) as was the case in this study. The significance of the multiple regression model is as in the table above which has a P- Value of 0.00 which is less than 0.05. This means that the multiple regression model is significant in predicting factors of outsourcing logistics services in Mitchell Cotts CFS. The confidence level at 95% indicates high reliability of the results obtained.

5. Summary, Conclusions and Recommendations

5.1. Introduction

This chapter deals with the summary of the findings and provides conclusions of the findings in relation to the study. This is followed by recommendations and suggestions for further study.

5.2. Summary

Outsourcing has increasingly becomes an important strategy that can significantly assist organizations to leverage their skills and resources to achieve greater competitiveness. Successful logistics outsourcing can provide significant benefits to firms. Management objectives, and perceived benefits may greatly influence an organization in making its decision to outsource logistics services to a third party service provider. Several studies on outsourcing have been reviewed which gave the direction of the study. Data was collected through use of questionnaires and which enabled capturing of sensitive information. The findings were analyzed through use of SPSS. The study shows that all the departments which seem to have relevant information in relation to the topic of the study were given a chance. Middle management were at 25%, indicating a considerable chance, followed by supervisory at 37% and lower level cadre at 18%. The respondents were of high level education and experience at Mitchell Cotts Limited indicating that majority of management employees are well conversant with outsourcing issues at Mitchell Cotts Limited.

In relation to the dependent variables, the study indicates a significant influence of variables on outsourcing of logistics services in Mitchell Cotts CFS. This is supported by regression analysis t-value for all independent variables which is greater than the critical value 2.0378 and a p-value of less than 0.05 at 95% level of significance which is less than 0.05.

5.3. Conclusions

From the research findings, it be concluded that outsourcing is dependent on management objectives, perceived benefits, perceived risks and nature of logistics services and other factors not dealt on this study. Each of the variables was found to have a significant effect on outsourcing of logistics services as indicated by the coefficient of correlation which are above

5.3.1. Influence of Management Objectives on Outsourcing Decisions

Business focus and cost effectiveness were the major management objectives that very highly influenced outsourcing of logistics services however high investment as a result of performing the services in-house highly influenced the logistics outsourcing decision but lack of expertise was rated as having low influence. This facts highly concurs with findings of other researches on outsourcing which have concluded cost cutting and the need to focus on core business as the major objectives for outsourcing.

5.3.2. Perceived Benefits of Outsourcing

Cost saving, the need to get access to excellent services had very high influence in making logistics outsourcing decisions. Other factors like high service level, was considered of low influence.

5.3.3. Influence of Perceived Risks on Outsourcing of Logistics Services

Generally the case company was less influenced by the perceived risks in the decision to or not to outsource logistics services. This is supported by the fact that actually most of the perceived risks were considered as having a small extend influence on making logistics outsourcing decisions. Perceived risks like loss of customer contact and inefficient management by had no influence at all in the logistics outsourcing decisions. Loss of control had little influence.

5.3.4. Nature of Logistics Services Outsourced

Transportation, reverse logistics, inbound and outbound logistics and fleet management were 100% outsourced as the company considered them as non-core activities and asset based that required high investment, however other services were performed in-house like labeling and packaging, customer service, shipment planning and inventory management. Some of these activities like labeling were performed in-house. This can be concluded that though labeling is not a core business of Mitchell Cotts CFS, it could be seen as having a competitive advantage due to the need for fast rebranding.

5.4. Recommendations

(i) As much as the management of Mitchell Cotts CFS desire to pursue cost reduction strategies and focus on its core business it needs not to forget the needs of end customer This could be tackled through introducing customer feed-back mechanisms like market intelligent information systems which would help in making informed decisions and revising the company's objectives.

(ii) Cost saving was found to be the highly influencing perceived benefits for the company's decision to outsource. However the company should conduct contract reviews after six to twelve months. This would not only assess the performance of 3PL service providers but also open new avenues for achieving more benefits and taking corrective measures

(iii) The study found out that perceived risks were not a major concern for the case company but this could prove detrimental in the long run as the company may not achieve its objectives in-case the risks strike. Thus the company should put in place risk mitigating measures like establishing close relationships with the 3rd party service providers and conduct regular market surveys to get customer feedback. Overdependence on 3PL service provider could be risky as the company doesn't have capacity at all to conduct the services in-house in case of failures by the 3PL services providers, thus it would be prudent enough for Mitchell Cotts CFS to have consideration of closer ties with vehicle manufacturers so that it can easily get trucks in-case any 3PL service provider goes in liquidation. Also the company can have framework and call off agreements with the suppliers with terms and conditions that would enable the company to secure supply of capital assets in-case the need arises.

(iv) The logistics services that were outsourced by Mitchell Cotts CFS were basically asset based. This could be attributed to the need by the company to reduce investment in capital assets though this exposes the company due to overdependence on third party service

providers. The company can however opt to lease some of the capital assets like trucks and sales fleet. This would enable the company to meet emergencies in case of failure by the 3rd party service providers and without affecting customer service.

5.5. Areas for Further Research

1. Factors influencing outsourcing in the private sector,
2. Developing competitiveness in outsourcing of services.

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7. Abbreviations and Acronyms

- 3PL - Third Party Logistics
- CFS – Container Freight Station
- GDP - Growth Domestic Product
- ICT - Information Communication Technology
- LSPs - Logistics Services Providers
- RBT - Resource Based Theory
- TPL - Third Party Logistics
- SPSS - Statistical Package for Social Sciences

8. Definition of Terms

1. Container Freight Station - It is “a Common user facility” with public authority status equipped with fixed installations and offering services for handling and temporary storage of import/export laden and empty containers and units carried under Customs control. (KPA CFS Policy, 2014)
2. Outsourcing – Involves the transfer of business support functions to external suppliers in order to obtain higher levels of performance at a lower cost with relatively little upheaval for the organization. (McIvor, 2005)
3. Third party Logistics (3PL) - A person who solely receives, holds, or otherwise transports a consumer product in the ordinary course of business but who does not take title to the product. (Council of Supply Chain Professionals, 2013)
4. Logistics - It is the process of planning, implementing, controlling the efficient and effective flow, storage of goods, services and related information from the point of origin for the purpose of conforming to customer’s requirements. (Council of Supply Chain Professionals, 2003)
5. Outsourcing logistics activities - Involves the use of third-party logistics providers for all or part of organizations logistics operations. The phenomenon describes an activity carried out by a logistic service provider for its clients (Vallespir & Kleinhans, 2001).

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear respondents,

I am a student at Jomo Kenyatta University of Agriculture and Technology carrying out a research study on the factors influencing outsourcing of logistics services at Mitchell Cotts Container Freight Station as a partial fulfilment for the award of Master’s Degree in Procurement and Logistics. The purpose of this questionnaire is to get your views and opinion on the research study which will help in coming up with recommendations and conclusions which will be important to the industry.

Any information provided will be purely used for academic purpose and will be treated with utmost confidentiality. Thank you in advance.

Yours sincerely,
Bruck Omwayi,
Msc Student,
JKUAT.

APPENDIX II: QUESTIONNAIRE

QUESTIONNAIRE FOR MITCHELL COTTS CONTAINER FREIGHT STATION

Please respond to the following questions which will be used for academic purpose only.

Tick where appropriate

Section A: Background Information

A1. Job Designation (Optional)

A2. What department do you work for in this organization?

A3. What is your position in the organization?

To Management

Middle Management

Supervisory Management

Lower level Management

A4. What is your highest level of education attained?

PHD

Masters

Degree

Others

A5. How long have you been working in this organization?

0-5 Years

6-10 Years

11-15 Years

Over 15 Years

Section B: Factors Influencing Outsourcing

B. Management objectives

B.1 How does Management Objectives influence outsourcing?

KEY : 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Strongly Disagree, 1=Disagree						
Kindly select one column		5	4	3	2	1
B1	Cost objective is a major issue in making outsourcing decisions					
B2	Outsourcing to third party is better than in-house logistics					
B3	Focus on core competencies is a major issue in outsourcing					
B4	General management decisions is major issue in making outsourcing decisions					

B2. What other objective influence outsourcing?

C. Perceived Benefits

C.1 How does Perceived Benefits influence outsourcing?

KEY : 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Strongly Disagree, 1=Disagree						
Kindly select one column		5	4	3	2	1
C1	Third party logistics provides excellent services					
C2	Cost savings is as a result of outsourcing					
C3	Logistics outsourcing allow resource focus on other core business					
C4	Logistics outsourcing lead to higher service levels					

C2. What other perceived benefits influence the organization in making outsourcing decisions?

D. Perceived Risks

D.1 How does Perceived Risks influence outsourcing?

KEY : 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Strongly Disagree, 1=Disagree						
Kindly select one column		5	4	3	2	1
D1	Logistics outsourcing lead to loss of control					
D2	Logistics outsourcing lead loss of customer contact					
D3	Logistics outsourcing contribute to inefficient management by the 3PL					
D4	Outsourcing risks is a major influence factor in outsourcing					

D2. What criteria do the organization use to minimize risks from logistics outsourcing?

E. Nature of Logistics Services

E.1 How does Nature of Logistics Services influence outsourcing?

KEY : 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Strongly Disagree, 1=Disagree						
Kindly select one column		5	4	3	2	1
E1	Nature of services influences what to be outsourced					
E2	It is critical to understand the type of services before outsourcing					
E3	Core and non-core services demand different treatment in outsourcing					
E4	Outsourcing some services may expose the organization					

E2. In your opinion what is the Nature of Logistics Services that influence outsourcing?

F. Factors Influencing Outsourcing

F.1 The following Factors Influence Outsourcing

KEY : 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Strongly Disagree, 1= Disagree						
Kindly select one column		5	4	3	2	1
F1	The organization makes outsourcing decisions based on management objectives					
F2	The organization makes outsourcing decisions based on perceived risks					
F3	The organization makes outsourcing decisions based on perceived risks					
F4	The organization makes outsourcing decisions based on nature of outsourced services					

F.2 Any other Factors Influence Outsourcing

Thank You for Your Participation.

APPENDIX III: BUDGET

COST ITEM	COST
Typing & photocopy	15,000.00
Transport	8,000.00
Stationery	5,000.00
Internet	5,000.00
Communication	3,000.00
Miscellaneous	3,000.00
Total	38,000.00

APPENDIX IV: WORK PLAN

THE ACTIVITY	MAR 2015	APR 2015	MAY 2015	JUN 2015	JUL 2015	AUG 2015	SEP 2015	OCT 2015
Draft research proposal								
Draft Chapter 1 & 2								
Draft Chapter 3								
Edit, Type, bind & Present the proposal.								
Defense								
Data collection								
Analyze data								
Draft findings conclusion & recommendations								
Type, bind & Present the project.								
Research project defense								