



DRIVERS OF LOGISTICS OUTSOURCING AMONG DISTRIBUTION FIRMS IN KENYA: A SURVEY OF AUTOMOTIVE FIRMS BASED IN NAIROBI

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Abstract

Logistics outsourcing is one of the concepts that has significantly grown. Through logistics outsourcing firms are able to focus on their core competence, cut down transaction costs, leverage on supplier resources and increase flexibility. Therefore, this study sought to establish the drivers of outsourcing logistics among distribution firms in Kenya through a survey of major automotive firms based in Nairobi. Stratified random sampling was used to pick a sample of 68 respondents from the automotive firms. Semistructured questionnaires were used to collect primary data. Descriptive data was applied followed by the test for normality, multicollinearity, regression analysis and ANOVA test using SPSS 21. The study found that transaction costs, flexibility, resource access and focus on core competencies are drivers for resource outsourcing. Specifically, on transaction costs drivers, cutting warehousing costs, advertisement and promotional costs, direct selling costs, transport costs, sales and administration costs and credit collection costs are the major reasons why companies outsource. On flexibility drivers, the need to respond quickly to addition order volume, the need to provide customers with additional products outside the bundle of products provided, the need to utilize the existing workforce on multiple processes and the need to operate profitably at varying output levels is the reason why companies outsource. On resource access drivers, the need for improved access to warehouse

facilities, enhanced access to transport vehicles, and enhanced access to updated IT systems is a major reason why companies outsource. On the focus on core competency, the need to free up staff to focus on core competence, the need to reduce capital investment requirements, and the need to reduce financial expenditure are the major reasons why companies outsource. This study recommends that organizations should outsource logistics services to third party logistics providers so as to cut down on transaction costs such as cutting warehousing costs, advertisement and promotional costs, direct selling costs, transport costs, sales and administration costs and credit collection costs. Further, this study recommends that firms should adopt flexibility by, responding quickly to addition order volume, providing customers with additional products outside the bundle of products provided, utilizing the existing workforce on multiple processes and maximizing profitably at varying output levels through logistics outsourcing. It also recommends a study on Business Process Outsourcing, nearshoring and offshoring.

Keywords: Logistics, Outsourcing, Distribution, Third Party Logistics, Competitive Advantage

INTRODUCTION

As the corporate world is changing rapidly, companies are under increasing pressure to maintain and increase their profitability while at the same time increasing customer service and market share in a global economy. Companies are striving hard to utilize the organization's competitive advantage to improve market and profitability (Handfield, 2006). Logistics outsourcing is an example of Business Process Outsourcing (BPO) which entails contracting of operations and responsibilities of logistics function to a third-party service provider. Logistics outsourcing practices include information management, transportation management, warehouse management, material handling management and inventory management (Forslund, 2012). The highly competitive environments along with customers' demands for tailored products and services has forced companies to continuously evaluate, improve and reengineer their operations. Today organizations most significant demands would be, maximizing logistics value by reducing business costs and lead time, improving service flexibility, responsiveness and reliability (Lee & Song, 2015). Over years the strategy has become an alternative which major companies consider in order to remain competitive. The strategy promotes low-cost strategy, proximity to foreign markets and easy access to foreign markets (Mingu, Xiaobo, & Hong, 2009). It also allows firms to inject more investment on core competencies and enjoy other gains such as flexibility, asset reduction and economies of scale. The worldwide trend in globalization

and increased competition has influenced many firms to outsource their logistics function in order to focus on their competitive advantage. According to (Rahman, 2011), percentage of outsourcing shows increasing trend with logistics service providers' efforts in their efficiency and productivity improvement through service integration and maximum utilization of information technology. Outsourcing of logistic functions is an emerging industry in the world and the market continues to grow (Kersten, Bemeleit, & Blecker, 2006) . Logistics cost average about 12% of the World's GDP .The worldwide trend in globalization and increased competition has influenced many firms to outsource their logistics function in order to focus on their competitive advantage. According to (Rahman, 2011), percentage of outsourcing shows increasing trend with logistics service providers' efforts in their efficiency and productivity improvement through service integration and maximum utilization of information technology. A study on logistics outsourcing practices and performance of large manufacturing firms in Nairobi (Mulama, 2012) found out that majority of this firms were outsourcing the transportation management, warehouse management and material handling management while half of the firms outsourced information management and inventory handling management. Githinji, (2012) sought to establish the impact of logistics outsourcing on the universities "supply chains" performance, logistics functions that are commonly outsourced by universities in Nairobi County are only the non-controversial functions with benefits accruing in reduction in overhead costs, improved university operations and customer service, improved focus on universities core competency and mandate, time saving, and security within campus Logistics outsourcing aims to achieve a number of objectives, which include but not limited to: reduction in capital investment in facilities; the need to allow the using firm greater flexibility in adapting to changes in the market and access to leading edge technology and effective management of inventory as firms only need to contract for the necessary level of service to meet current demand (Lieb, 2008). According to (Maghanga, 2011)the benefits of logistic outsourcing are responsiveness to customer's demands, improved costs, enhanced quality and service delivery, reliability, creation of sound business relationships and a source of core competence. (Rao, Young, & Novick, 2002) have identified factors such as centrality of the logistics function, risk and control, cost/service trade-offs information technologies and relationships with Logistics Service Providers.

This research studied drivers of logistics outsourcing among distribution firms in Kenya. This chapter outlines the research direction of the study including background of study, problem statement, and research objectives, and research questions, scope of the study and significance of the study.

General Objective

The general objective of the study was to establish the drivers of outsourcing logistics among distribution firms in Kenya: a survey of major automotive firms based in Nairobi.

Specific Objectives

1. To establish the effect of transaction cost on outsourcing logistics in major automotive firms based in Nairobi.
2. To evaluate the effect of flexibility on outsourcing logistics in major automotive firms based in Nairobi.

RESEARCH METHODOLOGY

The study used a cross sectional survey of major automotive firms based in Nairobi. Kothari (1985) defines survey research as the process of collecting representative sample data from a larger population and using the sample to infer attributes of the population. This research design was considered appropriate as it deals with many members in the population spread all over the country where it is not possible to study all of them and hence calling to study a few to come up with generalizations about the whole population. The target population of this study was the distribution firms in Kenya. On the other hand the study population comprised of the major automotive firms based in Nairobi. This study adopted content validity by asking for the opinion of expert judges in the field. Data collected was subject to inferential analysis using SPSS.

ANALYSIS

Reliability Analysis

Cronbach, (1951) recommends Cronbach's alpha α , of 0.7 to establish reliability. Cronbach's alpha for each variable was established and gauged against a cut off value of 0.7 which is acceptable according to Cooper & Schindler, (2008). In this study all the values were above 0.7 which concludes that the quantitative data collection instrument was reliable.

Table 1: Reliability Analysis

Variable	Cronbach Alpha	No of Items
Transaction Costs	0.833	6
Flexibility	0.821	4
Resource Access	0.922	4
Focus on core competence	0.819	4

Normality test

The test for normality was made by estimating measures of shape including skewness and kurtosis presented in Table 2. The rule of thumb is that a variable is reasonably close to normal if its skewness and kurtosis have values between -1.0 and + 1.0 Myoung, 2008. Normality of the variables is shown in Table 2 below indicated that the values of skewness and kurtosis was between the range of -1.0 and + 1.0. This implies that the assumption of normality was satisfied.

Table 2: Normality Test

Variables	N	Skewness Statistic	Std. Error	Kurtosis Statistic	Std. Error
Transaction Cost Drivers	48	-.545	.178	.821	.355
Flexibility	48	.107	.178	.460	.355
Resource Access	48	.564	.178	.304	.355
Focus on core competencies policies	48	-.987	.178	.848	.355
Logistics Outsourcing	48	-.851	.178	.465	.355

Correlation Analysis Matrix

From the study findings, it showed that there was a strong positive correlation (0.765) between core focus competence and logistics outsourcing.

Concerning lead-time, the study observed that there was a strong positive correlation (0.756) between flexibility and logistics outsourcing. This was an indication that automotive firms considered flexibility when outsourcing logistics. The study also revealed that resource accessibility and transactional costs also had positive relationship with logistics outsourcing.

Table 3: Correlation Analysis Matrix

		Logistics outsourcing	Transaction costs	Flexibility	Resource access	Focus on core competence
Logistics outsourcing	Pearson Correlation	1				
	Sig. (2-tailed)					
Transaction costs	Pearson Correlation	.600**	1			
	Sig. (2-tailed)	.000				

Flexibility	Pearson	.756**	.496**	1		
	Correlation					
	Sig. (2-tailed)	.000	.000			
Resource access	Pearson	.741**	.282*	.423**	1	
	Correlation					
	Sig. (2-tailed)	.000	.015	.000		
Focus on core competence	Pearson	.765**	.475**	.381**	.411**	1
	Correlation					
	Sig. (2-tailed)	.000	.000	.001	.000	

Table 3...

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

The independent variables (Transaction Cost Drivers, Flexibility Drivers, Resource Access Drivers, and Focus on Core Competency) were regressed on the dependent variable, Logistics Outsourcing. The R square statistic amounted 0.453 which clearly suggests that there is a strong relationship between Transaction Cost Drivers, Flexibility Drivers, Resource Access

Drivers, Focus on Core Competency and Logistics Outsourcing as indicated in table 4. This implies that Transaction Cost Drivers, Flexibility Drivers, Resource Access Drivers, Focus on core competency Drivers share a variation of 45.3 % of Logistics outsourcing.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798 ^a	.637	.632	.16532

a. Predictors: (Constant), Predictors: (Constant), Transaction Cost , Flexibility, Resource Access Drivers, Focus on core competency

b. Dependent Variable: Logistics Outsourcing

R^2 indicates the extent to which a model explains the variability in the dependent variable. In this case, $R^2 = 0.637 = 63.7\%$. This means that the regression model explains 63.7% of the variability in y/ dependent variable/ logistics outsourcing. Adjusted R^2 shows the goodness/fitness of a model given several variables in a model. The more the non-significant variables in a model the higher the gap between R^2 and adjusted R^2 . In this case, $R^2 = 0.637$ and adjusted $R^2 = 0.632$, therefore the gap is not big hence the four variables in the model are significant.

Table 5: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.197	4	5.549	24.007	.000 ^b
	Residual	15.949	69	.231		
	Total	38.146	73			

a. Dependent Variable: Logistics Outsourcing

b. Predictors: (Constant), Transaction Cost , Flexibility, Resource Access Drivers, Focus on core competence

The Anova table in table 5 indicates that the overall model was a good fit since (F-value=24.00 and pvalue=0.000<0.05). Unlike T-tests that only access one regression coefficient at a time, F-test assesses multiple coefficients in a model significantly. In this case, significance =0.000= P value and therefore P value =0.000 < 0.05 hence the conclusion that the model is significantly fit.

Table 6: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.141	.056		2.503	.015
	Transaction cost	.275	.080	.387	3.423	.001
	Flexibility	.395	.093	.537	4.235	.000
	Resource access	.550	.104	.665	5.268	.000
	Focus on core competence	.360	.090	.441	3.999	.000

a. Dependent Variable: Logistics outsourcing

Interpretation of overall model

Transaction Cost Drivers on Logistics Outsourcing

Transaction Cost Drivers were found to have a positive linearly significant influence on adoption logistics outsourcing. ($\beta=0.275$, $T=3.423$, $p<0.05$). Here one-unit increase in Transaction Cost Drivers results in 0.275-unit increase in Logistics outsourcing other factors constant.

Flexibility Drivers on Logistics Outsourcing

Flexibility Drivers were found to have a positive linearly significant influence Logistics Outsourcing. ($\beta=0.395$, $T=4.235$, $p<0.05$). Here one-unit increase in Flexibility drivers results in 0.395-unit increase in Logistics Outsourcing holding other factors constant.

Resource Access Drivers

Resource Access Drivers were found to have a positive linearly significant influence on Logistics Outsourcing. ($\beta=0.550$, $T=5.268$, $p<0.05$). Here one-unit increase in Resource Access Drivers results in 0.550-unit increase in Logistics Outsourcing holding other factors constant.

Focus on Core Competency

Focus on core competency was found to have a positive linearly significant influence on ($\beta=0.360$, $T=3.999$, $p<0.05$). Here one-unit increase in Focus on core competency results in 0.321-unit increase in Logistics Outsourcing holding other factors constant.

Predictive Importance

The beta coefficients indicate the relative importance of each independent variable; Transaction Cost Drivers, Flexibility Drivers, Resource Access Drivers, Focus on Core Competency Drivers) in influencing the dependent variable (Logistics Outsourcing). Resource access is the most important in influencing ($\beta=0.550$) followed by flexibility ($\beta=0.395$) then followed by core competence ($\beta=0.360$) and the least is Transaction Cost Drivers ($\beta=-0.275$).

Logistics Outsourcing is predicted to be at 0.141 units (B_0) when all other predictor variables are held constant.

CONCLUSION

This study sought to establish the drivers of outsourcing logistics among distribution firms in Kenya through a survey of major automotive firms based in Nairobi. Based on the empirical findings, this study concludes that transaction costs, flexibility, resource access and focus on core competencies are drivers for resource outsourcing. Specifically, cutting warehousing costs, advertisement and promotional costs, direct selling costs, transport costs, sales and administration costs and credit collection costs are the major reasons why companies outsource. This research is not conclusive by any means and suggests that a similar study be conducted to establish other drivers of logistics outsourcing.

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