



The Effect of Outsourcing Logistic Activities on Logistics Performance of Total Ethiopia

BY

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DECLARATION

I, the undersigned, hereby declare that the work which is being presented in this thesis entitled **“The Effect of Outsourcing Logistic Activities on Logistics Performance of Total Ethiopia”** is original work of my own, has not been presented in any of other university and that all sources of material used for the thesis have been duly acknowledged.

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This is to certify that the above declaration made by the candidate is correct to the best of my knowledge.

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ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT

**The Effects of Outsourcing Logistics Activities on Logistics Performance
of Total Ethiopian**

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Abstract

Logistics activities mostly considered as support activities by many companies, the main purpose of this research is to find out the driving factor of Total Ethiopia for outsourcing logistics activities and the effect of outsourcing logistic activities on logistics performance.

The study is carried out using descriptive survey method. The researcher included 48 respondents using census. Data was gathered from the respondents by using questionnaires and interview. Frequency, percentage and mean were used to analyze data collected through questionnaire while the data obtained through interview was analyzed qualitatively. The study discovered that the main reasons of Total Ethiopian for outsourcing its logistics activities is need to access outside expertise, efficient utilization of company's asset and saving in capital investment. Additionally, the result indicated that Total Ethiopian benefited in the form of access to outside expertise, saving in capital investment and efficient utilization of company's asset. The study revealed that the main challenge faced by Total Ethiopian is inefficient management of outsourced freight forwarding activities. The major performance metrics Total Ethiopian uses to value the freight forwarding service providers is based on time delivery of their shipments, responsiveness and flexibility to the needs of Total Ethiopian by the service providers and overall quality respectively. Finally, it is recommended that, in collaboration with the Ethiopian Customs Commission Total Ethiopian should avail customs clearance training to its employees so that they could be licensed as it will help them control and support the Service providers and also creating or developing its employees' ability to enable them to monitor outside service providers and strict application of performance metrics on the freight forwarding service providers are the other recommendations forwarded.

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Acronyms

CSCMP	Council of Supply Chain Management Professionals
GDP	Growth Domestic Product
KPI	Key Performance Indicator
LPG	Liquefied Petroleum Gas
LSP	Logistic Service Performance
S.C	Share Company
SCM	Supply Chain Management
SPSS	Statistical Package for the Social Sciences
TPL(3PL)	Third party Logistics

CHAPTER ONE

1. Introduction

1.1 Back ground of the study

A number of definitions are available in the literature and among various professional association. Logistics is defined by council of logistics management as the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for conforming to customer requirements. The integration of two or more logistics with in a network to create value, enhance efficiency and satisfy customers is called supply chain management (Debela, 2013).

The concept of outsourcing came from the American terminology “Outside resourcing”, meaning to get resources from the outside. The term was later used in the economic terminology to indicate the use of external sources to develop the business, which typically were using their internal resources. (Victor-Adrian Troacă, 2012)

The term outsourcing can cover many areas, including the outsourcing of manufacturing as well as services. The term ‘outsourcing’ is most commonly used in relation to the switching of the supply of product or service activities to external suppliers. It can involve the transfer of an entire business function to a supplier. Alternatively, it may lead to the transfer of some activities associated with the function whilst some are kept in-house. Outsourcing can also involve the transfer of both people and physical assets to the supplier. It is not just a straightforward financial or purchasing decision. In many cases, outsourcing is a major strategic decision that has implications for the entire organization. Mcvor, (2005).

Mugo,(2013) stated that, there are a number of issues to be considered in outsourcing sometimes companies, for various reasons, decide to outsource certain activates to other companies, commonly referred to as “third parties.” Some companies outsource for cost reasons, as the outsource partner may be able to provide the service more cheaply than the outscoring company can itself provide it for

increased flexibility is another reason to outsource, as the outsource partner may be more readily able to provide more or less of the service as required by the outsourcing company, and thus save it having commit its own resources. A third reason often cited for outsourcing is more of a strategic one whereby a company decides to focus upon its core competences that is, the tasks it is good at or has advantages in and outsource all other activates. Finally, given the rapid advances everywhere in technology, companies may no longer always necessarily have the most up-to-date technology available to them and thus will outsource to partners who do have such technology.

Logistics outsourcing refers to the transfer of all or part of the logistics functions to be performed on behalf of the firm by third-party logistics service providers (Lieb & Randall 1996; König & Spinler 2016).

In reality, outsourcing is an umbrella term that includes a range of sourcing options that are external to the firm^e (Sanders, et al 2007). As increasing global competition forces organizations to continuously find ways to improve business performance, McIvor et al (2009) believe that outsourcing allows firms to look beyond their traditional boundaries to obtain this performance improvement. Lankford and Parsa (1999) and McIvor et al (2009) see outsourcing as a means of re- engineering the organization, that is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed. In the era of “global market” and “e-economy”, outsourcing is one of the main pillars of the new way to conceive the relationships among companies (Franceschini et al,2003). Also reiterated that outsourcing represents 18.42% of the world GDP. In developing countries, outsourcing is increasingly recognized as essential in service delivery (Bharadwaj and Saxena, 2009)

Logistics outsourcing has grown up rapidly during the last few years, which improves the development of outsourcing logistics services. Nowadays, there are many kinds of logistics services to supply the diverse requirement from any business. It is different from the past that not only have basic logistics

services such as transport and warehousing but also complex and profound services been emerged. Learning about logistics services is useful for companies to consider which services are now available and which services they may need in the future (GE,Ding, Bussayadilokskul, Zhang & Han 2004).

Logistics outsourcing has become an important strategic tool where organizations are leveraging on it in order to remain competitive. Logistic processes are outsourced to vendor companies that specialize in the outsourced logistic activities leaving organizations to focus on their core activities. Emerging trends indicate that logistics management has shifted from the traditional back end operation to a strategic boardroom activity (Stock and Lambert, 2001).Therefore in order for organizations to handle its logistics activities effectively, it may consider a number of strategic options namely providing the service in-house, own logistics subsidiaries through purchase or setting up one or out rightly outsource the function and buy the service (Stock and Lambert, 2009).

There are different types of outsourcing services such as accounting, human resources, data processing, internal mail distribution, security, and maintenance work. These specific Outsourcing services are still highly relevant today. Unlike the 19th and early 20th centuries, today, there are many different types of Outsourcing services managed. These Outsourcing services are often grouped into five main categories: professional process, manufacturing, process-specific, and operational and project Outsourcing. These types of Outsourcing services can also now be found outside of the country. Today, companies from the United States outsource to specialized units, organizations and individuals from all over the globe. This type of Outsourcing can be referred to as offshoring (having the outsourced business functions done in another country), nearshoring or reshoring (the reversal of Outsourcing or the transfer of a business operation back to its home country) depending on the location. With more and more types of Outsourcing services arising, outsourcing in general has continued to grow in popularity as companies look to reduce business costs while improving performance. (<https://www.nearshoretechnology.com/outsourcing/outsourcing-types>).

1.2 Background of the company

Total Ethiopia was established in 1950 as a petroleum product distribution company, developed its activities by acquiring the Mobil Oil East Africa assets in 2006. Today, the company operates 170 service stations, 3 aviation depots throughout the country and the new state of the art Fuels and of Liquefied Petroleum Gas (LPG) Dukam depot. Total Ethiopia is also a responsible citizen company who is actively promoting road safety, fighting against malaria, ensuring product quality and developing renewable energies such as solar energy. In addition to exploration and production and renewable energies, Total is active across the entire petroleum product supply chain (service station networks, general retail, lubricants, aviation fuels, bitumen, LPG). (www.totaethiopia.com).

1.3 Statement of the problem

According to Council of Supply Chain Management Professionals (CSCMP 2013) Logistic the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for conforming to customer requirements including inbound, outbound, internal, and external movements. (Razzaque and Sheng 1998) stated that logistic activities which can be outsourced range from execution activities such as transport, distribution, warehousing, inventory management, order processing and materials handling. However, these activities are traditionally treated as support functions within the organization and have been given low priority compared with other business functions.

Sharpe as cited in (Mogire & Gakure 2014) stated that, outsourcing is primarily driven not only by the need to reduce costs but also overall by the need to improve a firm's competitiveness. It helps to increase efficiency, improve service quality, accountability, and 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, usually needs large and lump sum costs, which involves financial risks. Furthermore, outsourcing will also help companies to use outside expertise which is not available inside the company.

Although many companies outsource their logistics activities to take advantages of the benefits it brings according to (soodyall and Singh n.d) the main disadvantage cited by many authors, such as Razzaque and Sheng (1998), Chenog (2002), Jones and George (2009) and De Villiers(2011) is the loss of control. Different authors stated that outsourcing can create employee insecurity as well as pose legal complications. Companies that outsource logistics become completely dependent on the service provider, especially when the contract extends over a long period of time. It was also the authors, opinion that outsourcing service provider may lose touch with the client firm's business plan and strategy or the outsourcing service provider may have conflict of interest if it performs similar activities for other clients and may even use resources from one organization to support another. Leaking information is also rife in such relationships, Ahearn, Burt et al.Razzaque and Sheng, and Gelfi (as cited in Soodyall and Singh n.d.)

Currently many organizations outsource one or more of the business functions from outside vendors. Moreover, as various researches indicate the trend of outsourcing throughout the world has been increasing from time to time. It is also very crucial function in an organization because it directly affects the firm's operational activities. However, the use of outsourcing in Ethiopia is very low with the exception of outsourcing some non-core functions like security and janitorial services. (Meresea 2007).

Total Ethiopia has practiced outsourcing services for more than a year and outsource different functions such as cleaning, security, transport and freight forwarding (custom clearing) services. This research will address the intention of Total Ethiopia for outsourcing its logistics activities and the effect of outsourcing logistics activities on logistic performance of Total Ethiopia.

The concept and practice of outsourcing is an infant in the Ethiopia context but few years ago some organizations tried to outsource some of their non-core functions.

Different thesis and paper have been done in the area of outsourcing especially in business process outsourcing. But few papers and theses were done regarding outsourcing freight forwarding activities, in addition as per the researcher knowledge there are no prior researches made on this specific topic in the subject company. Furthermore, freight forwarding (custom clearing) activities has always been outsourced, again as per the researches knowledge in Ethiopia no company has ever tried to do these services in house. This is another point that the researcher would like to address in the study.

This paper only gives attention for freight forwarding (customs clearing) outsourcing activities. The study emphasizes the effect of outsourcing logistic activities on logistics performance of the company by raising research questions as stated below and providing answer to these questions.

1.4 Research questions

The research tries to answer the following questions

1. What is the driving factor of Total Ethiopian for outsourcing its logistics activities?
2. What are the effects of outsourcing logistics services on Total Ethiopian performance?
3. What are the challenges and benefits faced by Total Ethiopian due to outsourcing of its freight forwarding activities?

1.5 Objectives

1.5.1 General Objective

The main objective of the study is to find out the intention of Total Ethiopia for outsourcing logistics activities, the effect of outsourcing logistic activities on logistics performance and to discover the challenges and benefits faced by Total Ethiopia due to outsourcing of freight forwarding.

1.5.2 Specific Objectives

- To explore the motive of Total Ethiopian behind outsourcing of its logistics activities.
- To investigate effect of outsourcing logistic activities on logistics performance of Total Ethiopia and to find out challenges and benefits faced by Total Ethiopia.

1.6 Significance of the study

This research is significant because it will give highlights the benefits and the effect of outsourcing logistics activities of Total Ethiopian. And also, the study could serve as a source of information for other researchers who are interested in the area of logistics outsourcing.

1.7 The Scope of the Study

The scope of this study is showing effect of outsourcing logistic activities on logistics performance of Total Ethiopia. Though, there are wide operations which are outsourced by the company the assessment area is delimited to some operations outsourced by the company and also only freight forwarding (customs clearing). Therefore, any conclusion that will be drawn from this research is based on the above circumstances.

1.8 Limitation of the Study

This study is limited to only one specific company and also focuses on only freight forwarding (customs clearing) activities. These make the research result may not fully show the extent of outsourcing practice in Total Ethiopia S.C. Furthermore, there was minimal availability of secondary data such as brochures, reports and manuals. Consequently, most of the information's were gathered through interview. And again, other limitation was shortage of related literature in Ethiopia context with related to freight forwarding.

1.9 Organization of the study

The study is organized in to five chapters. Chapter-one presents the introductory part of the study that comprises, among others, background of the study, statement of the problem, basic research questions, objectives of the study, significance of the study, delimitation, of the study and definition of terms. Chapter-two deals with the review of the extant literature related to the topic of inquiry; whereas chapter-three gives detail account of the design and methodological aspects employed. The analysis of the study data, presentation of the results and corresponding discussions are comprised under chapter-

four. Chapter-five culminates the thesis by providing brief conclusions and relevant suggestions on the basis of the findings of the study. And also, the limitations encountered in the process of the study which has an effect on the conclusions will be discussed in this chapter.

1.10 Operational Terms

Logistics: The process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for conforming to customer requirements. The integration of two or more logistics with in a network to create value, enhance efficiency and satisfy customers is called supply chain management (Debela, 2013).

Logistics Outsourcing: fact of entrusting all or part of the logistic chain, whose activities were previously performed in-house, to an external supplier on the long run, with a potential transfer of resources and with an objective of performance (Ivanaj&Franzil,2006, p.5).

Core Competency: Bundles of skills or knowledge sets that enable a firm to provide the greatest level of value to its customers in a way that is difficult for competitors to emulate and that provides for future growth. Core competencies are embodied in the skills of the workers and in the organization. They are developed through collective learning, communication, and commitment to work across levels and functions in the organization and with the customers and suppliers (Vitasek2006, p. 36).

Inbound Logistics: The movement of materials from suppliers and vendors into production processes or storage facilities (Vitasek2006, p. 75).

Outbound Logistics: The process related to the movement and storage of products from the end of the production line to the end user (Vitasek2006, p. 104).

Outsourcing: Outsourcing can be defined as the strategic use of external specialized service providers to execute and manage activities or functions that are normally seen as non-core to the business (Rushton and Walker 2007,p.4).

Third Party Logistics Provider: A firm that provides multiple logistics services for use by customers. These services are integrated, or bundled together, by the provider. These are Freight forwarders, Courier companies and other companies integrating and offering subcontracted logistics and transportation services (CSCMP, 2013).

Customs clearing: work involves preparation and submission of documentations required to facilitate export or imports into the country, representing client during customs examination, assessment, payment of duty and co taking delivery of cargo from customs after clearance along with documents. (<https://www.universalcargo.com/what-is-customs-clearance>)

Freight forwarding: International Federation of Freight Forwarders Associations defines freight forwarding a "services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of the goods as well as ancillary and advisory services in connection therewith, including but not limited to customs and fiscal matters, declaring the goods for official purposes, procuring insurance of the goods and collecting or procuring payment or documents relating to the goods". (https://en.wikipedia.org/wiki/Logistics_Performance_Index).

Logistic performance: is an interactive benchmarking tool created by the World Bank to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. It is the weighted average of the country scores on six key dimensions: efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including Customs; quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology); ease of arranging competitively priced shipments; competence and quality of logistics services (e.g., transport operators, customs brokers); ability to track and trace consignments; timeliness of shipments in reaching destination within the scheduled or expected delivery time. This measure indicates the relative ease and efficiency with which products can be moved into and inside a country. (https://en.wikipedia.org/wiki/Logistics_Performance_Index)

1.11 Conceptual Definitions

Customs clearing: Performing all the activities and paper work to clear one's good out of customs territory.

Freight forwarding: the process of moving one's shipment from the point of origin to the point of destination by using services of shipping lines, airlines or road and rail freight providers or giving those services by itself including the support services liked customs clearing, procuring of shipping documents, arranging insurance of goods and follow up and tracking of goods.

CHAPTER TWO

2. Review of related Literature

Literature review is undertaken in order to assess the theoretical and empirical framework of Outsourcing of logistics activities by defining the following points

2.1 Outsourcing Theories

Outsourcing Theories Outsourcing has a very complex structure, which consists of numerous activities and functions giving rise to series of administrative and managerial dilemmas. A number of theories have been used to help scientists understand the nature of these operations and activities, as well as to help the managers of enterprises and organizations handle these processes in an effective manner. It is commonly accepted that any phenomenon can be described through a series of theoretical frameworks based on the corresponding approaches. Naturally enough, outsourcing has been approached applying a series of different theories, which can often lead to confusion among researchers (Busi & McIvor, 2008). This presentation will focus, with a few exceptions, on the models published during the past 25 years as they contain the solid knowledge of previous researchers and they ensure the minimum required timeliness.

- **Transaction Cost Economics**

The Transaction Cost Economics (TCE) theory has traditionally been the most widely-used outsourcing theory. It is considered that the TCE theory provides the best decision-making tools in order to assist organizations in deciding which of their operations should be outsourced and, thereafter, to prepare themselves in order to implement the necessary organizational changes arising from outsourcing. The characteristics of this model allow for its implementation both at the relationship management phase and at the reconsideration phase. Another extremely useful feature of the TCE theory is that it can be used for the analysis and selection of outsourcing contracts, which are often of great complexity. A number of researchers have approached the phenomenon of outsourcing using the

TCE theory. Firstly, in their research on decision-making with regard to the outsourcing of IT operations, researchers Lacity and Willcocks (1995) explored the phases of preparation, vendor selection, relationship management and reconsideration, from the viewpoint of the TCE theory. Aubert, Rivard and Patry (1996) also proposed a model which combines the TCE theory with the theory of Incomplete Contracts, in order to formulate a model that explains the phases of Preparation and Relationship Management. Eight years later, the same researchers (Aubert et al., 2004) returned with a new model, which combines again the two theories in order to interpret exclusively the preparation phase of outsourcing. Ulset (1996) explored the role of research and development in the process of outsourcing on the basis of the TCE theory, emphasizing on the need of organizations to safeguard the intellectual property of their patents. His model analyses the phases of preparation, vendor selection and relationship management. In another research effort, Brandes, Lilliecreutz and Brege (1997) explored the factors that determine the success of an outsourcing effort. Their model was based on the TCE theory and examined the phases of preparation, relationship management and reconsideration. The researchers reached the conclusion that when the decision to outsource is based on the TCE theory the outcome is better, as is the case when the vendor manages to develop a strong manufacturing basis.

▪ **Core Competencies Theory**

The Core Competencies Theory is based on the Theory of Resources and is an evolution thereof. Researchers Prahalad and Hamel (1990) defined Core Competencies as the collective knowledge of an organization, especially with regard to the ways of combining different productive skills and the integration methods of various different technologies. An analysis of the vendor's competencies is, according to the Core Competencies Theory, the main factor that determines the success of an agreement. The Core Competencies Theory has also been used to study the phases of relationship management and reconsideration. The Core Competencies Theory is the second most popular approach in the academic research related to outsourcing. Pinnington and Woolcock (1995) were based on the Core Competencies Theory in order to investigate whether the outsourcing of business operations related to the IT system of an organization may improve its organizational skills. Their research

focused on the phases of preparation and reconsideration. Researchers Baden-Fuller, Targett and Hunt (2000) proposed a decision-making model during the preparation phase based on the Core Competencies Theory, aiming to improve the competitiveness of the organization. The research of Arnold (2000), as set out in the TCE section above, was published in the same year and is worth mentioning at this point, given that the second theoretical pillar of the research is the Core Competencies Theory. It must be noted that the research of Gottschalk & Solli-Sæther (2005), examining the phases of preparation, relationship maintenance and reconsideration, concluded that the Core Competencies Theory is one of the two approaches that better illustrate the success factors of the outsourcing process.

- **Relational Theory**

The Relational Theory provides explanations on how enterprises may acquire and maintain a competitive advantage with regard to their relationships with other organizations (McIvor, 2005). This model has been used to study the phases of transition, relationship management and reconsideration. Therefore, the Relational Theory is the only approach that may be applied to the investigation of all phases of the outsourcing process. Willcocks and Choi (1995) explored the possibilities of laying the groundwork, through proper planning, for turning the outsourcing process from a simple partnership into a strategic alliance. Using the Relational Theory, they examined the factors that may be used to make decisions at the phases of preparation and relationship maintenance, aiming to make choices that will contribute to the creation of strategic alliances. Espino-Rodríguez and RodríguezDíaz (2008) proposed a relational model aiming to analyse the effects of an organization's ability to develop a relationship with the vendor at the phases of vendor selection and relationship maintenance for the development of competitive advantage, based on technology (Sakas, Vlachos, Nasiopoulos, 2014). Yahnghong (2011) described an outsourcing model based on the Relational Theory, aiming to interpret the phases of Preparation, Vendor Selection and Relationship Maintenance. The research reached the conclusion that the benefits of the outsourcing process are determined by the quality of the relationship at its establishment and by the care given by contracting parties to the development of the relationship.

- **Resource-based Theory**

The main premise of the Resource-based Theory is that resources and capabilities can differ significantly among organizations and that these differences remain stable (Barney & Hesterly, 1996). When the resources and capabilities of an enterprise are mixed and used in an appropriate manner, they may create a competitive advantage for the enterprise. This theory applies mainly to the Preparation phase of the process in order to identify the operations that must be outsourced, as well as to the Vendor Selection phase, allowing for the selection of the vendor with the most appropriate resources. The theory has also been used to explain the decisions made by the organization during the Relationship Management and Reconsideration phases (Kutsikos & Mentzas, 2011). A 2010 research (Alvarez-Suescun, 2010) proposes a model that combines the Resource-based Theory with the TCE theory in order to interpret the implementation of outsourcing processes in respect of IT operations. The model mainly focuses on the Transition phase and suggests that the Resource-based theory is the most appropriate approach for its interpretation. The research of (Roy & Aubert, 2001) used the Resourced-based theory in order to shape a model which aims at identifying the factors affecting the success or failure of outsourcing at the Preparation phase. (Barthelemy & Quelin, 2006) proposed a model based mainly on the Resource-based theory, and to a lesser extent on the TCE, in order to explain the Preparation, Vendor Selection, Relationship Management and Reconsideration phases.

- **Evolutionary Economics**

Theory Despite the fact that it first emerged in the 19th century; the interest in the Evolutionary Economics Theory has been revived after the publication of a research by Nelson and Winter in 1982. The backbone of these premises comprises, according to Andersen (1994), a series of six basic assumptions. The first assumption is that individuals and organizations can never be fully informed and that they must adjust and optimize their performance at the local instead of the global level. The second assumption is that the decision-making process of individuals and organization is subject to rules, norms and institutions. The third assumption is that individuals and organizations may imitate, to a

certain extent, the behavior and rules followed by their peers in order to gain self-knowledge and create innovation. The fourth assumption relates to the fact that the imitation and innovation processes are, to a great extent, stable, continuous and cumulative. However, they may be interrupted by occasional disruptions due to exceptional circumstances. The fifth assumption focuses on the fact that the interaction between individuals and organizations takes place in an unbalanced manner. Therefore, its success or failure is conditioned by external factors, the persons involved and their methods. Finally, the processes of change occur within a framework determined by the aforementioned five assumptions. These assumptions create a framework where changes have an unpredictable result; they are irreversible. Mahnke (2001) uses Evolutionary Economics in order to develop a broad model, which attempts to explain four out of the five phases of the outsourcing process, i.e. the phases of Preparation, Transition, Relationship Management and Reconsideration. Mirani (2006), proposes a theoretical model based on the theory of Evolutionary Mathematics, aiming to explain the Relationship Management phase.

- **Knowledge-based View**

the Knowledge-based View provides an understanding of how individuals cooperate to produce goods and to provide services. The Knowledge-based View establishes two methods for knowledge-sharing among partners (Nasiopoulos, Sakas, Vlachos, 2014). These are knowledge generation and knowledge application. The Knowledge-based View applies to outsourcing in order to demonstrate that knowledge-sharing at the relationship management phase of the outsourcing process is positively related to the success of the outsourcing agreement (Sakas & Kutsikos, 2014) (Kutsikos & Mentzas, 2012). The Knowledge-based View is the foundation of the model proposed by (Lee, 2001), which attempts to explain the management of the relationship between the two contracting parties of the outsourcing process. The model, which also uses the Core Competences theory, reached the conclusion that knowledge-sharing is one of the key success factors of an outsourcing process.

- **Agency Theory Initially**

This theory focused on the relationship between an organization's management and all other - stakeholders (agents) (Jensen & Meckling, 1976). However, this concept was later extended to explain the relationships between different organizations. This theory has been applied to outsourcing in order to interpret the relationship between the organization and the vendor. The theory suggests that the use of continuous monitoring and the reinforcement of the ties between two organizations (Barney & Hesterly, 1996) can address any problems which might arise (Arrow, 1985). In addition to relationship management, this theory has been used to explore the Preparation phase and, in particular, the stage where the organization considers all potential Vendors and decides on which type of relationship it wishes to develop with them, whereas it has been used, to a lesser extent, to analyses the Reconsideration phase.

- **Neoclassical Economic Theory**

According to Hodgson (1994), the Neoclassical Economic Theory has three characteristics. Firstly, the assumption that people and organizations act rationally in order to maximize their benefits, always on the basis of their preferences. Secondly, emphasis is placed on striking a balance or moving constantly towards balance. Finally, this theory does not recognize the issue of the absence of adequate information on behalf of individuals or organizations. This theory has been heavily criticized due to its inability to explain modern business operations.

In particular, the assumptions of rationalism and the absence of the chronic problem of lack of information, have been criticized as unrealistic and outdated. However, Gottschalk and Solli-Sæther (2005) have demonstrated that the Neoclassical Economic Theory may be applied to explain critical success factors of the outsourcing process during the Reconsideration phase.

- **Social Exchange Theory**

The Social Exchange Theory interprets interpersonal transactional relationships by using the economic

cost benefit analysis as a requirement for social participation and social exchange. The theory assumes that the sharing of resources (material or social-intangible) is a fundamental form of human interaction. Therefore, Social Exchange is an ongoing reciprocal process in which the actions of individuals or organizations depend on the rewarding reactions they receive from others (Gottschalk and Solli-Sæther, 2005). The theory has been used in combination with the TCE Theory in order to interpret the behavior of organizations at the reconsideration phase. The research of Whitten and Wakefield (2006) has been based on the Social Exchange theory and, to a lesser extend, on the TCE in order to propose a model that interprets the phase of reconsideration during the outsourcing process. The Social Exchange approach is also used in the highly theoretical work of Gottschalk and Solli-Sæther (2005;2006).

▪ **Economy of Information Theory**

It has been widely accepted and acknowledged that, in the real world, as opposed to the assumptions of Classical Economic Theory, information is never complete or perfect. As a consequence, new economic models have emerged in an attempt to interpret situations in which the two parties have unequal or no information. One of the first such models was the development of the search theory (Stigler, 1961). The determination of sellers and the prices they offer is only an example of the extent and importance of information search in economic theory and practice. Another basic concept of the economy of information theory is “signalling”. This concept was developed by Spence (1973) and focuses on the influence of signals

transmitted from entire markets or individual organizations on the decision-making process of others. Implementing a successful outsourcing strategy for a process involves analyzing a number of factors, including the contribution of the process to competitive advantage and the relative capability of the organization in the process.

Stage 1 – Process

importance analysis This involves determining the level of importance for processes that have to be

performed to satisfy customer needs. Identifying which processes are critical for success involves understanding the major determinants of competitive advantage in the markets where the organization competes or wishes to compete. Critical processes are those that can be used to build sources of advantage that are difficult and costly for competitors to replicate. They are processes that will enable an organization to differentiate itself from its competitors.

Stage 2 - Assessing process capability

A major part of outsourcing evaluation involves determining whether an organization can achieve superior performance levels internally in critical processes on an ongoing basis. This analysis is concerned with identifying the disparity between the sourcing organization and potential external sources. Organizations considering outsourcing must evaluate their capabilities internally and in relation to both their suppliers and competitors. It is important to carry out this analysis from a process perspective, given that organizations are increasingly positioning themselves in specific parts of the industry chain to gain competitive advantage. This allows an organization to concentrate on whether it will be detrimental to their competitive position to outsource research and development, design, engineering, manufacturing or assembly processes, both in the short and long term. Determining the capability of the sourcing organization in relation to competitors or suppliers involves analyzing the following: Cost analysis – part of this analysis involves comparing the costs of sourcing the process internally and from an external supplier.

An assessment of the relative cost position of the sourcing organization in relation to suppliers in the processes should also be made. Benchmarking – can assist in determining performance levels in the processes under scrutiny. It involves considering the cost position and a number of other dimensions such as quality, flexibility and service relative to competitors and suppliers.

Stage 3 - Selecting the sourcing strategy

Stages one and two considered the importance level and capability of the organization in the processes under consideration for outsourcing. Based on these analyses, the organization should select the most

appropriate sourcing strategy for both critical and non-critical processes in stage three. Figure 1 (page 3) shows the four potential sourcing strategies for the process, which range from investing to keep the process in-house, to total outsourcing. The organization should choose the sourcing strategy that fully reflects its competitive position and its process capabilities.

Stage 4 - Implementing and managing the outsourcing arrangement

This stage sets out the issues that must be considered when implementing and managing the outsourcing relationship.

There are three sub stages in this process:

- negotiating and signing the outsourcing contract
- managing the outsourcing relationship
- evaluating the relationship.

2.2 Outsourcing of logistics activities

2.2.1 Concept of outsourcing

The concept of outsourcing came from the American terminology “outside resourcing”, meaning to get resources from the outside. The term was later used in the economic terminology to indicate the use of external sources to develop the business, which typically were using their internal resources. According to an article published in The Economist, Tim Hindi stated that outsourcing is an old phenomenon that has made its presence felt since the time of the Second World War, knowing a remarkable trend especially after 1990.

The phenomenon of outsourcing generally refers to procurement of materials and services inputs by a firm from a source outside. In this context, outsourcing can be both internal and international. Internal outsourcing is the purchase by a company of services or material inputs from a source located in another firm within the same country. International outsourcing is defined as the purchase by a company of services or material inputs from a source located in another country. This term includes both intra-firm international outsourcing (by which foreign supplier of inputs is still held by the firm), and distance

international outsourcing (by which foreign supplier of inputs is independent of the company that uses inputs).

In recent years, the specialty literature was focused increasingly on outsourcing strategy when addressing the topic selected design variant. The plan for the development of a system is found and the option of outsourcing and as well as how this solution can be used during any project to implement the system.

The term of outsourcing is defined in different ways by different scholars based on the location and type of function outsourced. The following are some of the definitions and terms of outsourcing explained by scholars.

Handfield (2006) defined outsourcing as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organization contracts out major functions to specialize and efficient service providers who become valued business partners. Outsourcing is, thus, the strategic use of outside resources to perform business functions traditionally managed by internal staff. Using an outsourced company which will help reduce costs and gain efficiencies by leveraging the talent, technology, and expertise of third party vendors.

Anikin and Rudaya (2014) described outsourcing as the situation where a company delegates its operations to be managed by a third party that can do it cheaper, better and at a faster rate.

Gilley and Rasheed (2000) It is the substitution of activities performed in-house by acquiring them externally, although the firm has the necessary management and financial capabilities to develop them internally. It is also an abstention from performing activities in-house.

Among the definitions of the above different authors, it is clearly found that they come to a common background in which they agree that outsourcing could be summarized in the functions of make or buy

decisions, transfer the job to a third party, and organizational focus on core business activities while handling non-core activities to others who are specialist in order to increase job efficiency and cost reduction.

Outsourcing as a key business strategy has been used by companies in various industries for many decades. Competitive pressures have forced companies to look objectively and critically at business processes. Companies have been outsourcing manufacturing operations, business services and even

entire business lines successfully for a long time now. The idea of outsourcing has its roots in the competitive advantage theory propagated by Adam Smith in his book “The Wealth of Nations”(1776). Over the years, the meaning of term outsourcing has undergone a sea change. What started off as the shifting of manufacturing of goods to locations or countries providing cheap labour during the industrial revolution, it has taken on a totally new connotation in today’s scenario. Today, information technology has become the backbone of businesses and plays a key role in all types of business transactions. Through outsourcing one company hands over part or whole of its business process to another company, making it responsible for the design and implementation as per the requirements and specifications of the outsourcing company. Handfield (2006).

2.2.2 Outsourcing activities

Historically, the word logistic was derived from the term “logistician” which was the role of the chef de lôg is who was responsible for finding accommodation for the troops during the time of Napoleon Bonaparte (Van Creveld, 2004). Logistics as an activity however, has now evolved and in the business world, logistics relates to the management of the flow of products or services from the point of origin to the point of consumption. According to Bowersox (2007), logistics is engaged in a wide range of important activities for the transfer of goods, services and related information. This is where the importance of logistics is further established in the context of supply chain management (SCM) as the flow of activities infers that an extent of integration between activities needs to exist.

Rushton and Walker (2007) broadly categorize outsourced logistic activities in three main alternatives:

- Physical logistics and delivery (outbound) which are transportation, manufacturing, packing and physical flow of goods
- Non-physical logistics(information) which are IT service and operation management service
- Reverse logistics (inbound) which are returns disposal of goods and flow of physical goods from downstream.

They mentioned also outsourced activates handled by outside third-party logistic providers as outbound transportation, warehousing, inbound transportation, freight bill payment, custom brokerage, freight forwarding and customs clearance.

According to (Dapiran et al. cited in Shiekh and Rana 2013) logistics activities to be outsourced can be divided into two main categories such as execution and planning activities and these two categories can be further divided into two levels respectively. Execution activities may include transportation and warehousing as level 1 and value-added activities as level 2, whereas planning activities include transportation & inventory & management as level 3 and management of distribution network (Total outsourcing) as level 4. Planning level activities associated with setting goals, formulating strategies and to achieve those goals outlining of schedules and responsibilities whereas execution level activities are concerned with executing tasks.

More similar activities such as transport, warehousing, fleet management and complex supply chain optimization has been stated as an outsourced activates (denisa et al.n.d). On the other hand (Tagliapierta et al. 1999) acknowledged the four core capabilities which can be considered for outsourcing. These areas of outsourcing are transportation, warehousing inventory management and information systems.

2.2.3 Outsourcing of Freight forwarding activities

Process of globalization of markets in the world and the activities of international corporations create conditions for the growth of demand for freight forwarding services. The world currently observed on the one hand, globalization, and the other, producers are aspire to non-diversification. Producers give back many functions to outsourcing companies. In this regard, along with carriers, stevedoring, agency, freight companies an important role in the process of transportation is freight-forwarding companies, which at the time interested in increasing their list of services.

The main task of forwarding companies are organizing, coordinating and ensuring the delivery from shipper to consignee. Freight forwarding company is a legal entity, it is responsible for delivering the freight on time, without losing its quality and quantity in a given time conditions. According to the signed contract of freight forwarding services, freight forwarding company must constantly track the location of cargo management decisions that ensure the timely delivery of cargo to coordinate cooperation between different participants of delivery. (Popovych, Shyriaieva and Selivanova 2016).

Outsourcing of the freight forwarding function has taken center stage in realizing cost savings for organization; the freight forwarder's transportation role has been recognized as a critical strategic element within the supply chain (Stank, cited in Makubi et al. 2015)

2.3 Reason of outsourcing

Outsourcing is the process of delegating a company's business process to third parties or external agencies, leveraging benefits ranging from low cost labor, improved quality to product and service innovation. When outsourcing transgresses national boundaries and is managed by companies located in other countries, outsourcing takes the form of offshoring. There are ten top reasons why the company outsources:-

1. Lower operational and labor costs are among the primary reasons why companies choose to outsource. When properly executed it has a defining impact on a company's revenue recognition and can deliver significant savings
2. Companies also choose to outsource or offshore so that they may continue focusing on their core business processes while delegating mundane time consuming processes to external agencies
3. Outsourcing and offshoring also enable companies to tap in to and leverage a global knowledge base, having access to world class capabilities
4. Freeing up internal resources that could be put in to effective use for other purposes is also one of the primary benefits realized when companies outsource or offshore
5. Many times stranded with internal resource crunches, many world class enterprises outsource to gain access to resources not available internally
6. Outsourcing, many a time is undertaken to save costs and provide a buffer capital fund to companies that could be leveraged in a manner that best profits the company
7. By delegating responsibilities to external agencies companies can wash their hands off functions that are difficult to manage and control while still realizing their benefits
8. Outsourcing and especially offshoring helps companies mitigate risk and is also among the primary reasons embarked upon
9. Outsourcing also enables companies to realize the benefits of re-engineering
10. Some companies also outsource to help them expand and gain access to new market areas, by taking the point of production or service delivery closer to their end users

To summarize among the reasons to outsource, companies undertake outsourcing and offshoring for a variety of reasons depending upon their vision and purpose of the exercise. While this may vary from company to company, the fruits of labor are visible among some of the leading enterprises worldwide, where in outsourcing and offshoring have become a core component of day to day business strategies. (<https://www.flatworldsolutions.com/articles/top-ten-reasons-to-outsource.php>)

2.4 Impact of outsourcing logistic activities

In literature review that outsourcing of logistics activities has positive impact on the service performance of the organization as it allows firm to focus on its major business operations and used its resources in the required capacity as there are many service providers who hold expertise in their relevant fields (logistics). “By outsourcing the logistics operations, companies can focus on their core competencies and other important areas of organization which can’t be outsourced.” (Sheikh and Rana, 2011). Outsourcing is much beneficiary for small companies as they have limited resources so it is better for them to utilize those resources in their core business activities.

As per (Tagliapietra et al. 1999) the impact of outsourcing has to faces which is Operational impacts and strategic impacts:-

Operational impact includes:

- **Cost reduction:-** the outsourcer can experience lower logistic costs due to increased efficiency of the TPL
- **Improved logistic services:-** the outsourcer can benefit from TPL increased level of service consistency. This can lead the customer higher satisfaction.
- **Capital investment reduction:** the outsourcer doesn’t have to face the asset investment because it is using TPL provider’s facilities.

Strategic Impacts includes:

- **Access to logistic expertise:-** a strategic goal of the outsourcer could be to acquire and maintain a state of the art logistics expertise. The TPL provider is likely to be aware of current developments in the logistics field such as new regulations, innovations and logistics technology. It will therefore pass on the benefits of its knowledge to the outsourcer as a result of the outsourcing agreement.
- **Concentrate on core competencies:-** some enterprises have found out that in order to remain

competitive in their field they must reduce the range of functions they perform and concentrate on their core competencies. To do this they must reduce the resources and efforts expended outside their core skills. Many enterprises have made the strategic decision to minimize their involvement in logistics functions. Outsourcing offers enterprises the opportunity to reduce their logistics efforts while maintaining high standards of logistics service.

- **Economies of scale:** - for many enterprises logistics economies of scale are not achievable due to the relatively small size of the enterprise. In some cases, a strategic decision can be made to access these economies of scale, not by expanding, but by outsourcing the logistics functions to a TPL, which is already large and efficient enough to achieve the desired economies of scale. Outsourcing complete or partial activities creates great opportunities, but also new types of risks

2.4.1 Use or benefits of outsourcing activities

Rich (2014) notes that to remain competitive and relevant, many organizations will need to respond even more quickly, accurately, and thoroughly to future market changes, supply channel issues, client requirements, competitive challenges, global options, new opportunities, technological advances, and resource demands. With all this activity occurring within many companies simultaneously, it is imperative that corporate management accurately determine their procurement staff's skill sets, effectiveness, resourcefulness, workload capacity and available talent pool. In other words, it may be necessary for some organizations to "think out of the box" regarding available resources and consider the potential benefits listed below for procurement outsourcing.

Outsourcing offers many advantages. For instance, outsourcing allows companies to find and hire the best experts for specialized work. Using outsourcing also helps companies keep more cash on hand, freeing resources for other purposes, such as capital improvements. It is also often cheaper in terms of salaries and benefits and reduces risks and costs. Outsourcing can also help a business focus on its core components without distractions from ancillary and support functions. Another advantage – such as

that in the fictitious Smith & Company – involves speed and nimbleness. It is sometimes quicker and more efficient to hire a specialist to do something than it is to bring a company up to speed. Many large companies use outsourcing to fill roles in their organization that would be too expensive or inefficient to create themselves. Smaller companies also turn to outsourcing, though the cost savings is sometimes diminished. Rich (2014) outlines a number of benefits associated to outsourcing which include time, expertise of resources, speed and financial benefits. (Kalinzi 2015)

2.4.2 Challenges of Logistics activates

Due to the complex market and business environment, undesirable disruptions in logistics can affect enterprises and weaken its business strength. Logistics interruption can come from an unforeseen exogenous event such as an earthquake or from an endogenous event.

Managing logistics in the effective and efficient manner has become a business strategy as sustainability of enterprise long term development. According to the council of supply chain management professions, logistics management should aim to achieve seven rights, which including delivery the right product to the right place at the right time with right quantity and right quality, and at the right price to the right customer.

More to the point, to coordinate all the seven rights are not easy and need to integrate all internal units and external partners for achieving a synergetic result. Especially, in a global business, to comply with all rights will highly rely on collaboration with external resources, both of upstream and downstream partners. Besides of management control on process operations, there have many external or internal disturbs will affect logistics outcomes.

As current logistics has developed to support global dispatch network as well as multiple warehouse management and inventory control. Also, the process flow involved many third parties such as 3PL, Customs, inland delivery, etc. Each of transaction nodes would have its own risk, which may affect logistics performance or even break the process. (Wee, Blos, yang 2012).

The logistic activity in the enterprises has a huge impact on the way of functioning and the competitive power. The large risk variety in different types of business are typical in the logistic activity as well, like financial risks, transport risks, outsourcing risk, political risks etc. In today's global reality characterized by constant and rapid changes that make high degree of uncertainty and risk, make the logistics activity critical. (Nikolove,Tcholakove 2015)

Wang and Regan 2003, in their research stated that the following logistic outsourcing risks

- The possibility of inefficient management-
- Latent information asymmetry
- Loss of logistics innovative capacity
- Hidden costs
- Dependence on third party logistics provider
- Loss of control over third party logistics provider
- Problems of evaluating and monitoring third party logistics service provider performance
- Conflicts of Firms Culture

According to Freydmann (2011) state that, there are several possible advantage from logistic outsourcing. However, there are also vast potential challenges associated with such as Macro and Micrologistic are associated the risk of commercial nature, ie. with market fluctuations. As logistic system operates in the external environment of the market, all the risks are associated with changes, uncertainties and limitations of the infrastructure sector. Consequently, the more resistant is the regional logistic system to external changes, and the more flexible are its organizational units, the lower is the level of infrastructure risk.

These micro-logistics risks include the risk of business competitors in field of logistics as well as the appearance of limitations in logistical structures of legislative nature and regulatory dependence on the activities of logistics partners. In particular, in macro-logistics, there are risks of late delivery due to

change of time of registration of documents for international transport and risks associated with legislative restrictions on transportation rules and customs clearance. When classifying the risk by the type of logistics flow, we can distinguish the risks associated with material, financial, information and personnel flow.

2.4.3 Metrics on the impacts of out sourcing logistics activities on logistic performance

From literature it is also found that there are four major functions of logistics which can be hired from the service providers and those functions have their own impacts on the service performance. Decision makers have to decide which activity they have to hire from the service providers on the basis of the potential benefit of the particular function. Today logistics service providers are offering their services from the basic transportation to total distribution network depending on the size and capability of LSP. Logistics service performance can be examined on the basis of delivery time frame and the cost and it also examined on the basis of lead times (speed at which products are delivered to customers), reliability (in performing the agreed service accurately) and flexibility (in response to alterations in market place). According to (Stank et al., 2003), the firm's capacity to supply required goods at an acceptable cost and in the required supply time can determine the logistics service performance. (Sheikh and Rana 2012).

A recent publication by the Minnesota Department of Transportation, Measurement Sources for Freight Performance Measures and Indicators, identified lots of ways KPIs are used.

- On-time pickup and delivery
- Fuel efficiency
- Labor productivity
- Maintenance costs
- Miles that are driven outside of a predetermined route
- Border delays
- Loading or unloading time
- Damages

These core freight management KPIs are only a fraction of the possibilities, and each metric may go by other names with different companies. This simple list of freight management KPIs will provide an excellent means of identifying how to reduce costs and improve efficiency in freight management. (<https://cerasis.com/2016/05/04/freight-management-kpis>).

Dzogbewu 2010) mentioned delivery time, Receiving /unloading and dispatch/loading and responsiveness and flexibility as performance measures, he also agreed that factors like cost and overall quality are also very important when considering outsourcing, in addition he highlighted that trying to perform the logistics activities in-house would cause companies a lot, as it would require infrastructure and employment of first class expertise.

Pedregosa, Machuca & Zamora (2011) in their mentioned financial and non- financial performance indicators of outsourced logistics activities by referring to the works of different researchers. The financial metrics mentioned were, cash flow, Sales revenue, improved capital performance , cost savings and capital goods reduction while non- financial indicators such as value creation, innovative ideas, perceived quality, valuation of mistakes and damage, information availability, employee morale, flexibility, reduced delivery times, Improved service, Inventory control and Productivity were cited.

2.5 Conceptual frame work

Based on the available literature the researcher adopted the following conceptual frameworks are proposed for this study.

Drivers of Outsourcing → Challenge of Outsourcing → Performance

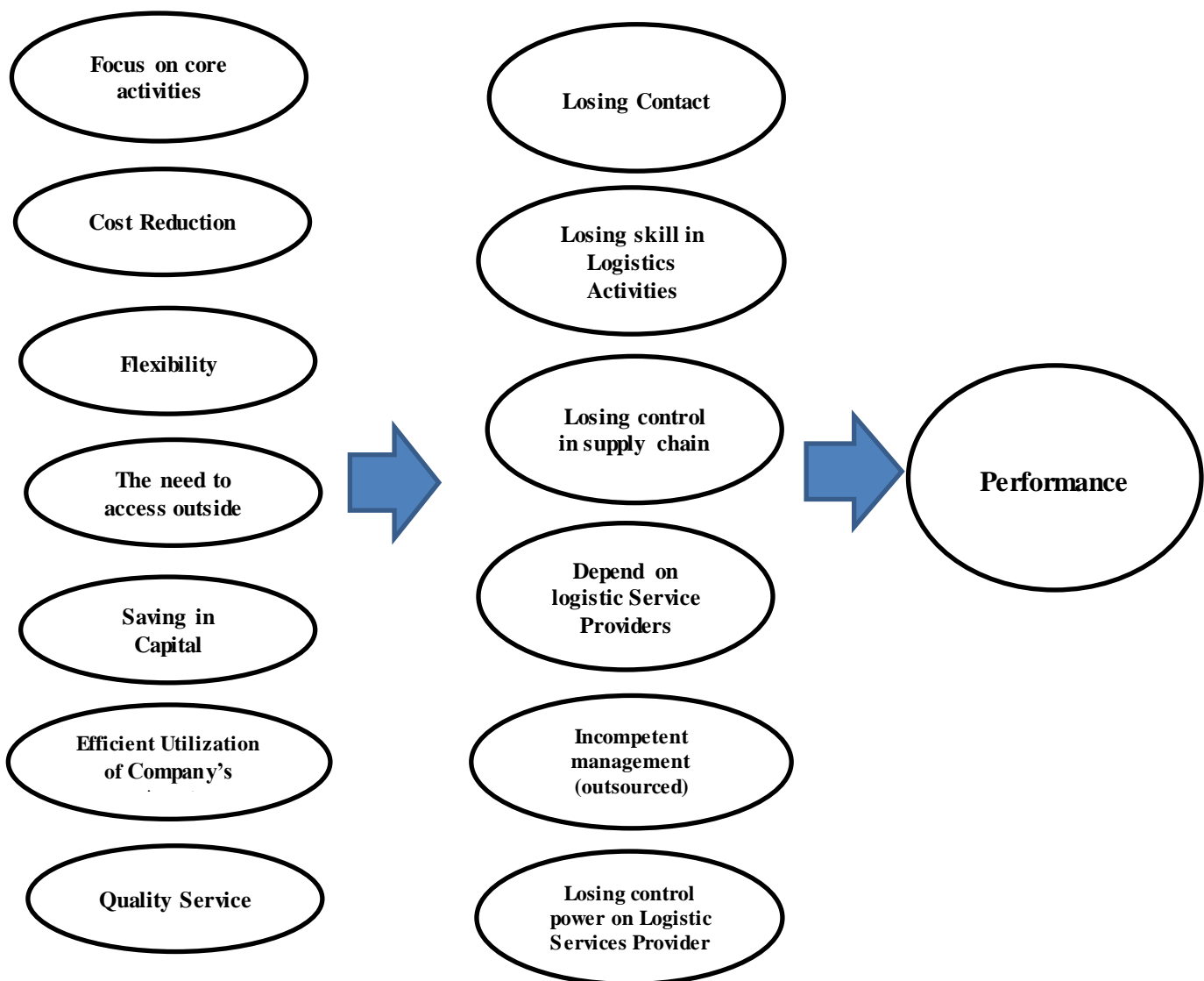


Figure 1: Conceptual frame work for Drivers, Challenge and Performance of logistic outsourcing activities (Source: Adopt by the researcher)

CHAPTER THREE

3. Research Design and Methodology

This chapter will present the research methodology that will be applied in conducting the study. It will discuss the research design, population, source of data, data collection and methods for data analysis.

3.1 Research Design

The research study adopted a descriptive research design. The design is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2002). The research design was both quantitative and qualitative.

3.2 Sample and sampling technique

3.2.1 The Population

The population for this study is all employees of Total Ethiopia who work in freight forwarding (customs clearing) section. Under custom clearing the section there are 48 employees of which 1 is manager, 3 supervisors 44 staffs who works in different positions. Census is used so all employees are considered for this study.

3.3 Sources of Data

Both primary and secondary data used for this study. The primary data collected from Total Ethiopia customs clearing section employee. While the reports, manuals and other documents used as secondary sources for this study.

3.4 Data Collection Method (Instrument of data collection)

In conducting the research both primary and secondary data sources used. The primary data is collected through questionnaires that have three sections. The first section contains basic personal information. The second section is for driving factor of outsourcing logistics activities. The third and fourth section contains about the benefits and challenges of outsourcing logistics

activities. The last part is about the metrics on effects on outsourced freight forwarding activities on logistics performance of Total Ethiopia. The respondents tick the correct option to the question according to their opinions using a likert scale of 1-5 for the samples. A supporting interview conduct with manager and supervisors working in the company.

3.5 Procedure of Data Collection

This section of the study presents the procedures that used to collect data from Total Ethiopia freight forwarding (customs clearing) section and service Provider Company. Questionnaires with both open and close ended questions which are organized in likert scale. And it distributed to customs clearing section. Interview conducted with the managers and supervisor of the section. In addition, the documents obtained from the company reviewed. The purpose of the questionnaire and the interview made clear to the respondents in advance to avoid any kind of confusion. The introductory section of the questionnaire about confidentiality of the responses. The interview and the distribution of the questionnaire held at convenient time for the respondents in order to get a genuine response and maximize the rate of return. The responses given to the close ended questions in the questionnaires and data reviewed analyzed quantitatively whereas the data gathered through interview and open-ended questions in the questionnaire analyzed qualitatively.

3.6 Method of Data Analysis

Data collected through close ended questions in the questionnaire analyzed quantitatively using descriptive statistics in a way of percentages, frequency distribution, mean and average mean used to analyze items in 'disagree- agree' continuum. While data collected through open ended questions in the questionnaire and interview analyzed qualitatively. In this study, SPSS software applied to analyze and interpret the data.

3.7 Reliability and Validity

In this paper the researcher used Cronbach alpha to test reliability and validity. Cronbach's alpha is a test reliability technique that requires only a single test administration to provide a unique estimate of the reliability for a given test. Cronbach's alpha is the average value of the reliability coefficients one would obtain for all possible combinations of items when split into two half-tests. Likert questions in a questionnaire that form a scale and wish to determine if the scale is reliable. As per the Cronbach's alpha test conducted, it provide the following rules of thumb: > 0.9 – Excellent, > 0.8 – Good, > 0.7 – Acceptable, > 0.6 – Questionable, > 0.5 – Poor, and < 0.5 – Unacceptable. George and Mallery (2003 (p. 231).

Table1. Cronbach's Alpha Constructs

Construct	Items	Cronbach's Alpha
Total items	28	0.829
Reasons of Outsourcing (Part -Two)	7	0.921
Benefits of Outsourcing (Part-Three)	7	0.719
Challenges of outsourcing (Part-Four)	6	0.775
Metrics to measure effects of outsourcing (Part- Five)	8	0.722

Source: Own Survey data, 2019

CHAPTER FOUR

4. Presentation, Analysis and Interpretation of Data

This section of the study deals with presentation, analysis and interpretation data obtained by different data gathering instruments.

4.1 Characteristics of the Respondents

The researcher prepared a set of questionnaires with one open ended item in the background section and 31 close ended items. The numbers of questionnaires distributed were 48 in order to include all employees in the logistics section.

Nevertheless, 42 copies of questionnaire distributed were returned. Consequently, 40(83.3%) of the questionnaires returned were considered in the study as some of them are discarded because some of the essential parts were not properly filled or skipped.

The researcher intended to conduct interview with Manager and three supervisors. And, the interview was conducted with the Manager and three supervisors.

The below table depicts the employees in the logistics section of Total Ethiopia are well qualified more than 80 percent of them being BA holders. It can also be referred from the table that Total Ethiopia's logistics section is comprised of highly experienced and young talents in both social and natural science fields. As per the interview conducted it was indicated that almost all employees in the section were previous in the area of logistics, warehousing, transport and supply chain related fields of work. Based on these facts, it can be implied that the employees in this section has a good knowledge and understanding of logistics and outsourcing activities.

Table 2. Respondents by educational profile, field of Study and years of experience

Description	Respondents	
	Frequency	Percentage
Education profile		
Diploma	5	12.5
BA/BSc	32	80
MA/MSc	3	7.5
Total	40	100
Field of Study		
Business	31	77.5
None Business	9	22.5
Total	40	100
Experience		
<5 Years	12	30
5-10 Years	25	62.5
11-15 Years	3	7.5
Total	40	100

Source: Own Survey data, 2019

4.2 Driving factor of Outsourcing freight forwarding Activities

The mean, for all the seven items stated as reasons for outsourcing of freight forwarding activity, was above the average (acceptable) mean. It can be seen as a gentle hint that business focus, cost reduction, operational flexibility, service quality, efficient utilization of company's asset, saving in capital and the need to access outside expertise are all Total Ethiopia's driving factor for outsourcing its freight forwarding activities. From all the driving factors the highest ranking are the need to access outside expertise, efficient utilization of company's asset, service quality and focus on core business activities respectively. As per the interview held with the managers need to access outside expertise was mentioned by all of them. They stated that special license is needed to engage in customs clearing service (which is part of freight forwarding activity) in Ethiopia. Total Ethiopia doesn't have inside experts which took the training from the Ethiopian customs commission to acquire this special license. They further stated that aside from the expertise they

need to make capital investment to provide the service in house, the managers even believe that they can reduce the cost of the freight forwarding service if it can be done in house. It can be deduced that Total Ethiopia doesn't have in house expertise and the necessary capital to perform the tasks of freight forwarding.

Table 3. Driving factor of outsourcing freight forwarding activities

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
	F	%	F	%	F	%	F	%	F	%		
Focus on core business activities	17	42.5	13	32.5	3	7.5	7	17.5	-	-	4.00	3
Cost reduction	8	20	22	55	6	15	3	7.5	1	2.5	3.83	6
Operational flexibility	11	27.5	20	50	5	12.5	4	10	-	-	3.95	5
Service quality	14	35	19	47.5	2	5	3	7.5	2	5	4.00	3
Efficient utilization of company's asset	16	40	16	40	4	10	4	10	-	-	4.10	2
Saving in capital investment	12	30	11	27.5	10	25	4	10	3	-	3.63	7
The need of expertise(from outside)	23	54.8	13	40.5	-	-	2	4.8	-	-	4.28	1

Source: Own Survey data, 2019

4.3 Benefits of Outsourcing Logistics Activities

As can be seen from the above table the mean for all items in the benefits of outsourcing is above the acceptable mean indicating that all the stated items as benefits of outsourcing freight forwarding activities are indeed the benefit received by Total Ethiopia logistics section as well. It can also be seen from the table that the need to access outside expertise, efficient utilization of company's asset and focus on core activities are the highest ranking benefits of outsourcing freight forwarding activity by Total Ethiopia respectively. The interview also confirmed access to outside expertise and efficient utilization of Company's asset as benefits.

Table 4. Benefits of outsourcing freight forwarding activities

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
	F	%	F	%	F	%	F	%	F	%		
Outsourcing of freight forwarding activities help Total Ethiopia to focus on its core activities	15	37.5	21	52.5	2	5	2	5	-	-	4.23	3
Outsourcing freight forwarding activities help Total Ethiopia to reduce its operational cost	11	27.5	22	55	5	12.5	2	5	-	-	4.05	6
Outsourcing freight forwarding activities gives Total Ethiopia Operational flexibility	13	32.5	23	57.5	-	-	4	10	-	-	4.13	5
Outsourcing freight forwarding activities help Total Ethiopia to give quality Service to its end customers	13	32.5	20	50	7	17.5	-	-	-	-	4.15	4
Outsourcing freight forwarding activities help Total Ethiopia for efficient utilization of company's asset	18	45	16	40	4	10	2	5	-	-	4.25	2

Outsourcing freight forwarding activities help Total Ethiopia in Saving in capital investment	14	35	15	37.5	10	25	1	2.5	-	-	4.05	6
Outsourcing freight forwarding activities help Total Ethiopia to access outside expertise.	27	66.7	10	28.6	-	-	3	4.8	-	-	4.52	1
Average mean	4.21											

Source: Own Survey data, 2019

4.4 Challenges of outsourcing freight forwarding Logistics Activities

The main challenge of outsourcing freight forwarding activities of Total Ethiopian is the possibility of inefficient management of the outsourced freight forwarding activities. Loss of control over logistics service providers and loss of direct contact with clients were 2nd and 3rd highest challenges. As per the interview held also possibility of inefficient management of outsourced freight forwarding and loss of control over logistics service providers were mentioned as main reasons. As can be seen from the bottom of table 4 and 5 the average mean for benefits of outsourcing is 4.21 while for average mean for challenges is 3.4. It can be inferred that the benefits of outsourcing outweigh challenges of outsourcing in Total Ethiopia.

Table 5. Challenges of outsourcing freight forwarding activities

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
Outsourcing of freight forwarding activities of Total Ethiopia will result in loss control of its supply chain	8	20	14	35	8	20	9	22.5	1	2.5	3.48	4
Outsourcing of freight forwarding activities of Total Ethiopia will result in loss of contact with its clients	9	22.5	12	30	10	25	8	20	1	2.5	3.5	3
Outsourcing of freight forwarding activities of Total Ethiopia will result in losing skills in logistics activities	2	5	12	30	14	35	11	27.5	1	2.5	3.08	5
Outsourcing of freight forwarding activities of Total Ethiopia will result in dependence on logistics service providers	1	4.8	8	28.6	16	33.3	14	31	1	2.4	2.85	6
Outsourcing of freight forwarding activities of Total Ethiopia will result in loss of control over logistics service providers	9	22.5	16	40	6	15	8	20	1	2.5	3.6	2
Total Ethiopia might face the possibility of inefficient management because of outsourcing its freight forwarding activities	8	20	25	62.5	3	7.5	3	7.5	1	2.5	3.9	1
Average mean												3.4

Source: Own Survey data, 2019

4.5 Metrics to Measure effects of Outsourced Logistics Activities on Logistics Performance

As per the information gathered with interview the non-financial metrics used to measure the effects were on time delivery (with mean 4.43), picking and delivery accuracy (with mean 4.28), overall quality (mean value 4.3), responsiveness and flexibility (mean value 4.30), loss in delivery (mean value 3.63), mistakes and damage in delivery (mean value 3.63) and on time receiving and loading (mean value 4.18). According to the questionnaire all the non-financial metrics score mean greater than the acceptable. However, loss on delivery and mistakes and damage on delivery have lower effects on logistics performance as compared to the others. Cost reduction scored a mean value of 2 which indicates that it doesn't have an effect on Logistics performance of Total Ethiopia.

Table 6. Metrics to measure effects of outsourced freight forwarding activities on logistic Performance

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
	F	%	F	%	F	%	F	%	F	%		
Cost Reduction	2	5	2	5	-	-	25	62.5	11	27.5	2	6
Picking and delivery accuracy	13	35.2	25	62.5	2	5	-	-	-	-	4.28	3
On time delivery	21	52.5	16	40	2	5	1	2.5	-	-	4.43	1
Responsiveness and flexibility	18	45	18	45	2	5	2	5	-	-	4.30	2
Overall quality	17	42.5	20	50	1	2.5	2	5	-	-	4.30	2
On time receiving (unloading and dispatch) loading	19	47.5	13	32.5	4	10	4	10	-	-	4.18	4
Mistakes and damages in delivery	12	30	10	25	10	25	7	17.5	1	2.5	3.63	5
Loss in delivery	9	22.5	15	37.5	10	25	4	10	2	5	3.63	5

Source: Own Survey data, 2019

CHAPTER FIVE

5. Summary, Conclusions and Recommendations

5.1 Summary of the Findings

This chapter is devoted to present summary of the main findings and conclusions of the study and forward researchers' recommendations based on the findings and conclusions.

To analyze the data percentage, frequency, and mean and rank order were used, consequently the finding of the research is as follows: -

1. In contrary to different studies which mentioned cost reduction and focus on core activities as the main reasons for outsourcing of logistics activities (Denisa et al 2015, Kersten et al. n.d. & Kwateng & Manso 2014) the major reason that Total Ethiopian outsource its freight forwarding activity is the need to access outside expertise due to lack of the absence in house capability. Service quality and efficient utilization of company's asset are the other higher-ranking reasons of Total Ethiopian for outsourcing of its freight forwarding activity.
2. In line with the driver factor of outsourcing its freight forwarding activities, the greatest benefit Total Ethiopian get from outsourcing of its freight forwarding activities is access to outside expertise, the second highest benefit being efficient utilization of company's asset. Although some literatures cited access to outside expertise and lack of in house capability as benefits of outsourcing logistics activities (ASL distribution services 2014 and Griffith n.d.), again most literature have differing views in this regard for instance, (Mulama 2012) mentioned increased competitiveness, focus on core activities and cost cutting as main benefits of outsourcing.

3. The major challenge faced by Total Ethiopian due to outsourcing its freight forwarding activities is inefficient management of outsourced freight forwarding activity. Loss of control over logistics service providers and Loss of direct contact with clients are also the highest ranking reasons. In support of this Wang and Regan (2002) mentioned possibility of inefficient management of outsourcing activities as challenges faced by many organizations which leads to increased operational cost.
4. Following the analysis and summary of the findings, the major performance metrics that made Total Ethiopia value the freight forwarding company is based on time delivery of their shipments, responsiveness and flexibility to the needs of Total Ethiopia by the company's (service providers) and overall quality respectively. In line with this, the most frequently mentioned performance metrics for outsourced logistics activities is timeliness, on time delivery or reduced delivery time (Dzogbewu 2010, Pedregosa et al 2011 and Zwolinska 2010).

5.1 Conclusions

Based on the analysis and the summary of findings the following conclusions are forwarded

1. Reasons for outsourcing greatly vary from company to company. From items stated as reasons of outsourcing mean values for all items are above 3.5. It means that most of the respondents agree that items stated are all reasons for outsourcing with different extent. Likewise, the need to access outside expertise, efficient utilization of company's asset and service quality were ranked 1 up to three based on their weighted mean. So, it can be inferred that Total Ethiopian outsource its freight forwarding activity mainly due to lack of in house expertise or out of need to access outside expertise.

2. When companies outsource their freight forwarding or any activity it is with expectation of gaining some benefit. Seven items were formulated in the questionnaire as benefits that a company obtains from outsourcing its freight forwarding activities. The mean for all items in the table were above the value of 4. So, it this verifies that as a result of outsourcing its freight forwarding activities Total Ethiopia benefits in the form of focus on core competence, reduction of cost, operational flexibility, service quality, effective utilization of company's asset, saving in capital investment and the need of expertise (from outside) but with varying extent. The first ranking benefit as per the result of the analysis is access to outside expertise while efficient utilization of company's asset and focus on core competence follow through.
3. Challenges were one of the factors examined with regards to outsourcing of freight forwarding activities. Accordingly, the possibility of facing inefficient management of outsourced activities was the major challenge Total Ethiopia face due to outsourcing its freight forwarding activities. Loss of control over logistics service providers, loss of contact with clients and loss of control over the supply chain are also other challenges faced by Total Ethiopia as a result of outsourcing its freight forwarding activities with a little less extent as compared to the possibility of inefficient management.
4. As per the result of the analysis on time delivery, responsiveness and flexibility and overall quality take the first three higher ranks as the metrics to measure effects of outsourcing freight forwarding activity on Total Ethiopia's logistics performance. However, all items, stated in the questioner happen to effect Total Ethiopia's logistics performance with different extent.

5.2 Recommendation

It can be seen from the summary of findings and conclusions outsourcing its freight forwarding activities affected Total Ethiopia in different ways. Based on the positive and negative effects from the results of the analysis the following recommendations are made in light of the benefits and challenges the company faced when it outsources its freight forwarding activities.

1. The two major reasons that compelled Total Ethiopia to outsource its freight forwarding activity are Lack of in-house expertise (absence of License to perform its own customs clearing activity) and efficient utilization of Company's assets. Therefore, it is recommended that, in collaboration with the Ethiopian Customs Commission Total Ethiopian should avail customs clearance training to its employees so that they could be licensed as it will help them control and support the company.
2. Since all the benefit items scored mean greater than the acceptable value and also the average mean for the benefits of outsourcing freight forwarding is way greater than the average mean for the challenges Total Ethiopia should continue outsourcing its freight forwarding activities till it develops its own capacity. The highest-ranking benefits obtained from outside freight forwarding service providers is access to their expertise, efficient utilization of company's asset and need to focus on its core competencies.
3. The challenge Total Ethiopia face due to outsourcing its freight forwarding activities is inefficient management of outsourced freight forwarding activities. Again, it is suggested that the company should built up its employee's ability in the areas of freight forwarding and related outsourced activities to enable them monitor outside service providers. Close monitoring of the freight forwarding service providers might help to increase their efficiency in provision of the service.

4. Total Ethiopia should apply the metrics of performance measures strictly to alleviate the possibility of inefficient management of outsourced freight forwarding activities as well as to make best use of the benefits of the outsourcing its freight forwarding activities.

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Questionnaire

Dear Respondent,

This questionnaire is designed to conduct a research on the topic ‘**The Effect of Outsourcing Logistic Activities on Logistics Performance of Total Ethiopia**’. The purpose of the study is for the partial fulfillment of the requirement of MA degree in Logistics and supply chain management. For the successful accomplishment of the study, your response have key role by being used as valuable input for the study. The information that you provide is strictly confidential and will be used only for academic purpose. Thus, you are kindly requested to genuinely fill the questionnaire.

Thank you

Please give your answers in the space provided or put a tick mark in the boxes that matches your response as per the indications and instructions

Part 1

Personal information

1. what is your position in the organization _____
2. Year of experience in the organization
< 5 5-10 11-15
16-20
3. Qualification
Diploma BA/BSc
MA/MSc
4. Field of Study _____

Part 2

Intention (bases) behind outsourcing of logistics activities

To what extent does these reasons of outsourcing matches to your company rationale to outsource its freight forwarding activity (please put a tick mark)

5= strongly agree, 4= agree, 3= uncertain, 2=disagree and 1= strongly disagree

Reasons for outsourcing Logistics activities	5	4	3	2	1
Focus on core business activities					
Cost reduction					
Flexibility					
Quality service					
Utilization of company's asset					
Saving in capital investment					
The need of expertise(from outside)					

Other Reasons _____

Part 3

Benefits of outsourcing

To what extent does the company benefited from outsourcing its freight forwarding activity (please put a tick mark)

5= strongly agree, 4= agree, 3= uncertain,2=disagree and 1= strongly disagree

Benefits gained from outsourcing Logistics activities	5	4	3	2	1
Outsourcing of freight forwarding activities help Total Ethiopian to focus on its core activities					
Outsourcing freight forwarding activities help Total Ethiopian to reduce its operational cost					
Outsourcing freight forwarding activities gives Total Ethiopian flexibility					
Outsourcing freight forwarding activities help Total Ethiopian to give quality service					
Outsourcing freight forwarding activities help Total Ethiopian for utilization of company's asset					
Outsourcing freight forwarding activities help Total Ethiopian in Saving in capital investment					
Outsourcing freight forwarding activities help Total Ethiopian to access outside expertise					

Other benefits _____

Part 4

Challenges of outsourcing

To what extent the company face the below challenges as a result of outsourcing freight forwarding activities (please put a tick mark)

5= strongly agree, 4= agree, 3= uncertain, 2=disagree and 1= strongly disagree

Challenges of outsourcing Logistics activities	5	4	3	2	1
Outsourcing of freight forwarding activities of Total Ethiopian will result in losing control in supply chain					
Outsourcing of freight forwarding activities of Total Ethiopian will result in losing of contact					
Outsourcing of freight forwarding activities of Total Ethiopian will result in losing skills in logistics activities					
Outsourcing of freight forwarding activities of Total Ethiopian will result depend on logistics service providers					
Outsourcing of freight forwarding activities of Total Ethiopian will result in losing control power on logistics service providers					
Total Ethiopian might face the possibility of inefficient management because of outsourcing its freight forwarding activities					

Other challenges _____

Part 5

Which of the performance metrics does your company use to measure the impact of outsourced freight forwarding activity? (Please put a tick mark)

5= strongly agree, 4= agree, 3= uncertain, 2=disagree and 1= strongly disagree

Measures of impact on the performance of outsourced activities	5	4	3	2	1
Financial Metrics					
Cost saving					
Non-Financial Metrics					
Picking and delivery accuracy					
On time delivery					
Responsiveness and flexibility					
Overall quality					
On time receiving (unloading and dispatch) loading					
Mistakes and damages in delivery					
Loss in delivery					

Other measures _____

Addis Ababa University
School of Graduate Studies
Department of Logistics and Supply Chain Management

Interview questions to Manager and supervisor of Total Ethiopian

- Why Total Ethiopian outsource its freight forwarding activity? (What is company intention?)
- What are the benefits that Total Ethiopian gets by outsourcing its freight forwarding activities?
- What are the challenges faced by Total Ethiopian due to outsourcing of its freight forwarding activities?
- What are the major metrics of performance your company use to measure the impact of outsourced freight forwarding activities?