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The Effects of Outsourcing Logistics Activities of Ethiopian Airlines on Its Logistics Performance

By: Melkam Assefa

**A Thesis Submitted to the Addis Ababa University School of Graduate Studies in partial
fulfillment of the requirement for Masters Degree in Logistics and Supply Chain
Management**

Advisor: Ayele Abebe (PhD)

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ADDIS ABABA UNIVERSITY

SCHOOL OF COMMERCE

DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT

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By: Melkam Assefa

Approved by Examining Board

Advisor _____
Name Signature

Internal Examiner _____
Name Signature

External Examiner _____
Name Signature

Chairman _____
Name Signature

Declaration

I, Melkam Assefa, hereby declare that this study entitled “**The Effects of Outsourcing Logistics Activities of Ethiopian Airlines on Its Logistics Performance**” is my own work. All information in this document has been obtained and presented in accordance with academic rules of ethical conduct

Student Researcher

Melkam Assefa

Date: May 2016

Letter of Certification

This is to certify that Melkam Assefa has carried out her research work on the topic entitled '**The Effects of Outsourcing Logistics Activities of Ethiopian Airlines on Its Logistics Performance**' as a partial fulfillment of the requirement of Master of Arts Degree in Logistics and Supply Chain Management. This study fulfills requirements to obtain academic Degree from the university

Advisor: Ayele Abebe (PhD)

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List of Tables.....	iii
List of Figures.....	iv
List of Acronyms.....	v
Abstract.....	vi
Chapter One: Introduction	1
1.1 Background of the study	3
1.2 Background of the Company	6
1.3 Statement of the problem	8
1.4 Research Questions	8
1.5 Objectives	8
1.5.1 General Objective	8
1.5.2 Specific Objectives	8
1.6 Significance of the study	8
1.7 Delimitation of the Study	9
1.8 Limitation of the Study	9
1.9 Organization of the study	9
1.10 Definition of Terms	10
1.11 Conceptual definitions	11
Chapter Two: Review of Related Literature	12
2.1 Outsourcing of Logistics Activities	12
2.1.2 Outsourcing of Freight Forwarding Activities	15
2.2 Reasons of Outsourcing	15
2.3 Effects of Outsourcing Logistics Activities	17
2.3.1 Benefits of Outsourcing Logistics activities	18

2.3.2 Challenges of Logistics outsourcing	20
2.3.3 Metrics on the Effects of Outsourcing Logistics Activities on Logistics Performance	23
2.4 Conceptual Frame Work	25
Chapter Three: Research Design and Methodology	26
3.1 Research Design	26
3.2 Sample and Sampling Technique	26
3.2.1 The Population	26
3.2.2 The Sample Size	26
3.3 Sources of Data	26
3.4 Data Collection Method (Instrument of data collection)	26
3.5 Reliability and Validity	27
3.6 Procedure of Data Collection	28
3.7 Method of Data Analysis	29
Chapter Four: Presentation Analysis and Interpretation of Data	29
4.1. Characteristics of the Respondents	29
4.2. Rationale Behind Outsourcing of Logistics Activities	31
4.3 Benefits of Outsourcing Logistics Activities	33
4.4 Challenges of outsourcing Logistics Activities	34
4.5 Metrics to Measure Effects of Outsourced Logistics Activities on Logistics Performance	36
Chapter Five: Summary, Conclusions and Recommendations	37
5.1 Summary of the Findings	37
5.2 Conclusions	37
5.3. Recommendation	38
Reference	
Appendices	

List of Tables

Content

Table 1 Cronbach's Alpha Constructs.....	27
Table 2 Characteristics of Respondents by Educational Qualification, Field of Study and Years of experience	29
Table 3 Rationale Behind Outsourcing Freight Forwarding Activities.....	30
Table 4 Benefits of Outsourcing Freight Forwarding Activities.....	32
Table 5 Challenges of outsourcing freight forwarding activities	33
Table 6 Metrics to measure Impact of outsourced freight forwarding activities on logistics performance.....	34

List of Figures

Contents

Figure 1 Ethiopian Airlines Organizational Structure of Procurement & Supply Chain

Management.....5

Figure 2 Conceptual Frame work.....25

Acronyms

AFRAA	African Airlines Association
CSCMP	Council of Supply Chain Management Professionals
EAL	Ethiopian Air Lines
KPI	Key Performance Indicators
TPL	Third Party Logistics
TWA	Transcontinental Western Air Transport

Abstract

The impracticality of excelling at every task force companies to outsource some of their activities especially logistics activities mostly considered as support activities by many companies. The purpose of this study is to learn the rationale of Ethiopian Airlines behind outsourcing of its logistics activities and study the impact of outsourcing Logistics activities of Ethiopian airlines on logistics performance. The study is carried out using descriptive survey method. The researcher included 42 respondents using census. Data was gathered from the respondents by using questionnaires and interview, respectively. 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 Ethiopian Airlines for outsourcing its logistics activities is need to access outside expertise, efficient utilization of company's asset and saving in capital investment. Further, the result indicated that Ethiopian Airlines 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 Ethiopian Airlines is inefficient management of outsourced freight forwarding activities. The major performance metrics Ethiopian uses to value the freight forwarding service providers is based on time delivery of their shipments, responsiveness and flexibility to the needs of Ethiopian by the service providers and overall quality respectively. Finally, it is recommended that, in collaboration with the Ethiopian Customs and Revenue authority Ethiopian Airlines should avail customs clearance training to its employees so that they could be licensed as it will help them control and support the TPL providers and it is also one step forward for their long run plan of performing freight forwarding and customs clearance activities in house. Building up 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.

Key words: Logistics, Freight forwarding, Logistics Outsourcing, Logistics Performance, Performance metrics

Chapter One: Introduction

This chapter deals with brief discussion of the background of the study as a whole and the subject company in particular. It also gives justification as to why the study is undertaken besides it confers the objective and the potential value of the study.

1.1 Background of the study

Logistics has been called the last frontier, that even at the present time, the improvement of logistics has been the primary source of companies' to make new profits and maintain competitive advantage (Vasiliauskas&Jakubauskas2007)

Logistics is an integral part of every economy and every business entity. In order to remain competitive, many organizations are re-focusing their attention on their core competences and as such are outsourcing non-core functions. The worldwide trend in globalization of business has led many organizations to outsource their logistics function to third-party logistics (TPL) companies in order to focus on their core business (Soodyall & Singh n.d.).

The impracticality of excelling in every possible task has led many companies to concentrate on activities which they perceive to be linked to their competencies. This concentration was made possible by, and further stimulated the emergence of providers specialized in performing tasks that many organizations considered to be non-core; the resulting arrangement is referred to as outsourcing (Kersten, Kosh &Honarth n.d.).

Although different definitions were given by different authors to logistics all reflect the definition given by Council of Supply Chain Management Professionals. Logistics is defined by CSCMP as part of supply chain management that is concerned with planning, implementing, and controlling the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements (Vitasek2006).

Logistics encompasses all of the information and material flows throughout an organization. It includes everything from the movement of a product or from a service that needs to be rendered, through to the management of incoming raw materials, production, the storing of finished goods,

its delivery to the customer and after-sales service. The growing importance of logistics arises from companies becoming globalized to gain access to new markets, realize greater production efficiencies, and tap technological competencies beyond their own geographical borders. Currently, logistics operations include purchasing, distribution, the managing of inventories, packaging, manufacturing, and even customer services (Bowersox and Closs,cited in Kilasi 2013).

Bolumole(1999) in his research stated that, traditionally, the management of material flows has centered, and depended, on the internal capabilities of the organization. This usually led to the development of inventory-driven systems i.e., buying enough goods far enough in advance to ensure steady product supply. Similarly, organizations managed the inbound transportation of raw materials as a separate function from the outbound transportation and distribution of finished products. He also indicated that, each business unit controlled its own logistics activities. However, in today' s industries, characterized by constant change and heavy competition, one can argue that this traditional way of developing logistics strategy and structuring supply chain organizations is no longer a valid means for ensuring firms ' survival .

Domberger (cited by Mulama 2012) defined outsourcing as the transfer of the production or transfer of goods and services that have been carried out internally to an external provider.

In the 1990s, outsourcing was the focus of many industrial manufacturers; firms considered outsourcing everything from the procurement function to production and manufacturing. Executives were focused on stock value, and huge pressure was placed on the organization to increase profits. Of course, one easy way to increase profit is by reducing costs through outsourcing. Indeed, in the mid1990s there was a significant increase in purchasing volume as a percentage of the firm's total sales. More recently, between 1998 and 2000, outsourcing in the electronics industry has increased from 15 percent of all components to 40percent (Khuyen 2009).

Outsourcing of logistics involves the use of external companies to perform logistics functions which have traditionally been performed within an organization. The functions can encompass the entire logistics process or select activities within that process (Sahay and Mohan 2003).(Tagliapietra, Platan, Li , & Scheider 1999) recited that for most companies' products,

promotion and price are the competitive ingredients, while time and place have taken the back seat. However due to the increase in the geographical distances between production and consumption the relative neglect is no changing.

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).

1.2 Background of the Company

As per the information from Wikipedia (the free encyclopedia n.d.),After the liberation of Ethiopia from the Italian occupation , Emperor Haile Selassie I asked the United States, the United Kingdom, and France to help him to establish an airline as part of his modernization effort. According to the BBC News it is possible that the Emperor intended the creation of a quality national airline to help dispel impressions of Ethiopian poverty. In 1945, the Ethiopian government began negotiations with both Transcontinental Air Transport and Western Air Express (later merged into TWA). On 8 September 1945, TWA signed an agreement with the American historian and foreign affairs advisor to Ethiopia John H. Spencer to establish a commercial aviation company in Ethiopia.

Ethiopian Airlines, formerly known as Ethiopian Air Lines (EAL) and often referred to as simply Ethiopian, is Ethiopia's flag carrier. EAL was founded on 21 December 1945 within initial investment of ETB 2.5 million, divided in 25,000 shares that were entirely held by the government. The company was financed by the Ethiopian government but managed by TWA. At the beginning, it relied upon American pilots, technicians, administrators and accountants; even its General Managers were from TWA. Minister of Works and Communications Fitawrari Tafasse Habte Mikael became EAL's first president and chairman, whereas H. H. Holloway — who was American— was appointed by TWA as general manager. The airline commenced operations on 8 April 1946, Wikipedia (the free encyclopedia n.d.).

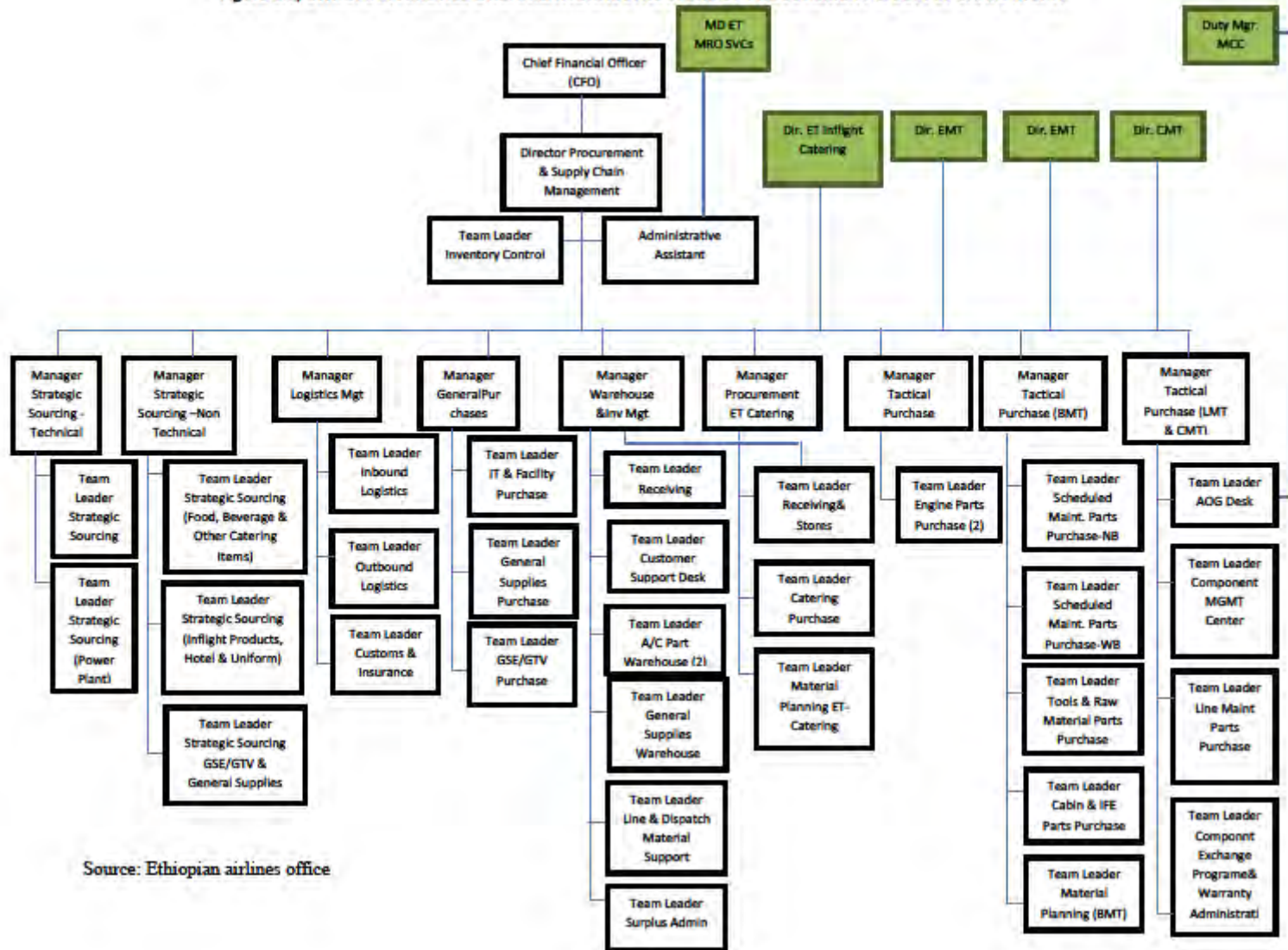
The first scheduled flight took place to Cairo via Asmara in Douglas C-47 Sky train. The national airline had been set up a few months earlier as Ethiopian Air Lines Inc., a joint venture with American airline, TWA (Trans World Airlines). Five US Government surplus C-47 aircraft were purchased for venture. Following the successful inaugural flight to Cairo, a regular weekly service was established, history of Ethiopian airlines ('about us'n.d.).

History of Ethiopian airlines ('about us'n.d) further stated that the airline then expanded its services to international flights in 1951. The firm became a share company in 1965, and changed its name from Ethiopian Air Lines to Ethiopian Airlines. The airline has been a member of the International Air Transport Association since 1959 and of the African Airlines Association (AFRAA) since 1968. Ethiopian is a Star Alliance member, having joined in December 2011.

Its hub and headquarters are at Bole International Airport in Addis Ababa, currently it serves a network of 82 passenger destinations —19 of them domestic— and 23 freighter ones. Ethiopian flies to more destinations in Africa than any other carrier. It is one of the fastest-growing companies in the industry, and is among the largest on the African continent. It is also one of the few profitable airlines in the Sub-Saharan region, Wikipedia (the free encyclopedia n.d.).

Following the interview made with the manager and team leaders, Ethiopian Airlines Logistics section has stand out in itself since December 2014. Prior to 2014 store and logistics section did the logistics and the warehousing works and logistics activities were not done in an organized way.

Figure 1.2, ETHIOPIAN AIRLINES ORGANIZATIONAL STRUCTURE OF PROCUREMENT & SUPPLY CHAIN MGMT



Source: Ethiopian airlines office

As per the organizational structure, the department is run by one logistics manager; all inbound and outbound logistics activities of the company are managed in the department. Under the logistics manager there are three team leaders who are responsible for inbound logistics, outbound logistic and customs and insurance. The inbound logistics team is responsible for good to be imported to Ethiopia while the outbound logistics team deals with aircraft, non- aircraft, catering and stationary items to be sent out to 92 outside stations of Ethiopian airlines and other destinations. The customs and insurance team is responsible documentation and claim issues for incoming and outgoing logistics activities.

1.3 Statement of the problem

According to Goor et al. (as cited in Hsiao 2009) logistics is a process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements. Razzaque and Sheng in their survey stated that, logistics activities which can be outsourced range from execution activities, such as transportation, 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 (Razzaque& Sheng 1998).As per Tagliapietra *et al.* (1999) with modernization and increased competition faced by organization, logistics outsourcing has become an attractive option in order to take advantage of global opportunities, to significantly improve customer service, to reduce operational costs and enable focusing on core competencies.

Sharpe as cited in (Mogire&Gakure 2014) affirmed 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 advantage of the benefits it brings according to (Soodyall & Singh n.d.) the main disadvantage cited by many authors, such as Razzaque and Sheng (1998), Cheong (2003), Jones and George (2009) and De Villiers et al. (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 a 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 & Sheng, & Ghelfi (as cited in Soodyall & Singh n.d.).

As per the information gathered from the company, Ethiopian airlines outsource three logistics activities to third party logistics providers. It outsources warehousing and transportation partially while freight forwarding or commonly called customs clearing (transit) service is outsourced fully.

This research addresses the rationale of Ethiopian Airlines for outsourcing its logistics activities and the effects of outsourcing logistics activities on the logistics performance of Ethiopian airlines.

Outsourcing is not a new issue or phenomena in Ethiopia, companies outsource different business functions, cleaning, Human resource, security, and the like. Logistics activities such as freight forwarding, customs clearing, transportation and warehousing activities are not new to outsourcing either. Different thesis and papers has been done in the area of outsourcing especially in the area of business process outsourcing.

However, very few papers and thesis were done in Ethiopia with regards to outsourcing freight forwarding activities, in addition as per the researchers knowledge there are no prior researches made on this specific topic of outsourcing logistics activities in the subject company. Furthermore, Ethiopian airlines being a logistics service company itself, it triggers me why it outsources its freight forwarding activity.

Accordingly, the research will try to find answers to the above problems with the help of the below research questions.

1.4 Research Questions

1. What is the rationale of Ethiopian Airlines for outsourcing its logistics activities?
2. What are the effects of outsourcing logistics services on Ethiopian Airlines logistics performance?

1.5 Objectives

1.5.1 General Objective

The main objective of the study is to find out the motivation of Ethiopian Airlines for outsourcing logistics activities and the effects of outsourcing its logistics activities on logistics performance.

1.5.2 Specific Objectives

The specific objectives are:

- To learn the rationale of Ethiopian Airlines behind outsourcing of its logistics activities.
- To study the benefits and challenges of outsourcing Logistics activities of Ethiopian airlines on logistics performance.

1.6 Significance of the study

This research will be significant because it will address both the benefits and the challenges of outsourcing logistics activities of Ethiopian Airlines. Since most companies which outsource their logistics activities only seek to gain some advantage giving little attention to the challenge outsourcing Logistics activities could bring, it is believed that this study might be an eye opener

for the company under the study in this regard. It will also help the company's decision makers of logistics activities to weigh both the challenges and benefits when they outsource logistics activities. Furthermore, it boosts the researcher's knowledge in the subject area because different books, journal, publication and materials related to this subject are covered. Moreover, this study could serve as a source of information for other researchers who are interested in the area of logistics outsourcing.

1.7 Delimitation of the Study

Ethiopian airlines outsource three logistics activities to third party logistics providers, warehousing, transportation and freight forwarding (customs clearing). As the subject area is very vast and because two of the activities are only partially outsourced, this study is delimited outsourcing freight forwarding (customs clearing) service of Ethiopian Airlines. Ethiopian Airlines is a very big organization, procurement and supply chain management is one of the departments comprised of nine departments one of which being Logistics department. Again the study is delimited to the effects of the outsourcing of freight forwarding on logistics performance only.

1.8 Limitation of the Study

The study is limited in that as the logistics a recently organized department in the organization there was minimal availability of secondary data such as brochures, reports and manuals. Consequently most of the information was gathered through interview. Another limitation is lack of Ethiopian literature particularly in the area of outsourcing freight forwarding activities.

1.9 Organization of the study

This section outlines the main component of the research. The study is organized in to five chapters. The first chapter which is introduction is comprised of 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.

The second chapter is review of related literature; it deals with review of relevant literature for the study.

In the third chapter the type and the design of the research will be discussed, in addition the subject of the study, the source of data, and the data collection tools employed the process of data collection and the method of data analysis technique will also be described.

In the fourth chapter the result and findings of the study will be summarized. The result findings will be interpreted with the use of the reviewed literature.

In the final chapter findings will be summarized based on the results discussed, conclusions will be drawn from the summary of the findings and practical recommendations will be made. The limitations encountered in the process of the study which has an effect on the conclusions will be discussed in this chapter.

1.10 Definition of Terms

Logistics: The process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods including services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements. This definition includes inbound, outbound, internal, and external movements (Vitasek2006, p. 88).

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 which provides multiple logistics services for use by customers. Preferably, these services are integrated, or "bundled" together by the provider. These firms facilitate the movement of parts and materials from suppliers to manufacturers, and finished products from manufacturers to distributors and retailers (Vitasek2006, p. 145).

Customs clearing: can be defined as the set of functions undertaken by a national customs authority, which include, but are not limited to processing of import, export, and transit declarations, assessment of origin, value, and classification of goods, collection and processing of duties and fees, physical inspection, examination, and release of cargo conduct of post-clearance audits, processing of urgent consignments, administration of waivers and exemption schemes and drawback (re-exportation) schemes (McLinden cited in USAID 2009 p. 13).

Freight forwarding: Freight forwarding may be defined as the secure and efficient movement of goods on behalf of an exporter or importer, commonly known as the shipper (Rushton and Walker 2007, p. 4).

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: Review of Related Literature

2.1 Outsourcing of Logistics Activities

The concept of “logistics” appeared under several “guises”, i.e. alternative designation, throughout recent history: distribution, physical distribution, technical & material procurement, marketing logistics, logistic distribution, material management, logistic material management, procurement chain management, supply Chain Management, industrial logistics, business logistics (Lambert & Stock Cited Irina, Liviu & Ioana n.d.)

Logistics encompasses all of the information and material flows throughout an organization. It includes everything from the movement of a product or from a service that needs to be rendered, through to the management of incoming raw materials, production, the storing of finished goods, its delivery to the customer and after-sales service, (Pollitt Cited in Kilasi *et al.* 2013).

The idea of outsourcing has its roots in the competitive advantage theory propagated by Adam Smith (1776) in his book *The Wealth of Nations* in that a firm should specialize in products that it is good at to achieve competitive advantage. This was brought about by globalization, liberalization and privatization concepts in global markets and economies (Ogachi Cited in Wanjiru 2013).

As per the book of Rushton and Walker the idea and practice of outsourcing emerged after the Second World War, when businesses sought diversification in order to achieve scale and protect profits. In the 1970s and 1980s organizations found themselves struggling to compete in a more global environment because of their lack of agility, caused by over-complex and over-staffed management structures. To resolve this, many large companies developed a strategy of focusing on their core business. This meant selling off some non-core activities, but also identifying those non-critical processes that could be outsourced (Rushton and Walker 2007).

Remarkably, outsourcing was not officially identified as a business strategy until 1989 (Mullin, cited in Rushton and Walker 2007) and Logistics outsourcing was mostly confined to outsourcing dedicated distribution and transportation activities, but gradually other logistics services were outsourced, including stock control, order processing and returns operations (Rushton and Walker 2007).

Yet another study done by Corbett (2004) describes outsourcing as a phenomenon that has skyrocketed in recent years. However, it is not a new phenomenon; outsourcing as a practice originated in the 1950s it was mentioned that in those time it was also interchangeably called subcontracting, off shoring and sourcing in general and was considered only as a way of doing business but in the 1980s it was first adopted in organizations as a strategy (Hätönen& Eriksson cited in Denisa, Lucie, Eva & Leona n.d.).

Many scholars defined outsourcing in different ways. Outsourcing is described as an allocation of specific business processes to a specialist external service provider. This is due to the fact that most of the times an organization cannot handle all aspects of a business process internally and some processes are temporary and the organization does not intend to hire in-house professionals to perform those tasks, advantages and disadvantages of outsourcing (What is Global outsourcing n.d.). On the other hand, (Griffithn.d.) defined outsourcing as ‘the strategic use of outside resources to perform activities traditionally handled by internal staff and resources’.

As per (Duening & Click 2005), business outsourcing can easily be defined as moving parts of business processes from the company to an outside provider. They further stated that, these processes can be tasks which have previously been carried out by the company itself or new ones which rise from different business needs.

According to (Hsiano 2010), Logistics outsourcing is a process that involves the use of external logistics companies to perform activities that have traditionally been performed within an organization, where the shipper, forwarder or logistics service provider enter into an agreement with Trade Company or manufacturer for delivering services at specific costs over some identifiable time horizon. Logistics outsourcing is considered to be an excellent source of competitive advantage for companies. Contrary to most literatures (Irina *et al*, n.d.) highlighted the fact that the benefits of outsourcing are long praised in literatures, but its risks are often briefly described.

According to (Wilding & Juriado cited in Makumbi, Obanda & Pule 2015) about 40 Percent of global logistics functions, including freight forwarding, are outsourced.

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

1. Physical logistics and delivery (Outbound) which are transportation, Manufacturing, Packing and Physical flow of goods
2. Non-physical logistics (Information) which are IT services and Operations management services
3. Reverse-logistics (Inbound) which are returns Disposal of goods and Flow of physical goods from downstream.

They also mentioned that outsourced activities handled by outside third party logistics providers as outbound transportation, warehousing, inbound transportation, freight bill auditing/payment, customs brokerage, freight forwarding and customs clearance.

In other study(Kwateng & Manso2014)stated that outsourced logistics management activities typically include inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventory management, supply/demand planning, and management of third party logistics services providers. They further stated that to various degrees, the logistics function also includes customer service, sourcing and procurement, production planning and scheduling, packaging and assembly.

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 transportation, warehousing, fleet management and complex supply chain optimization has been stated as an outsourced activities (Denisa *et al.* n.d.).

On the other hand (Tagliapietra *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.

2.1.2 Outsourcing of Freight Forwarding Activities

Freight forwarding outsourcing can be broadly defined as the contracting out, to a logistics network expert, of the management and coordination of a series of logistics activities that are involved in the movement of goods by sea, air, land, pipeline or rail within and across territorial boundaries(Makumbi *et al.* 2015).

A freight forwarder is an organization that collects shipments from a number of businesses and consolidates them into larger shipments for economies of scale. A freight forwarder often also deals with route selection, price negotiation, and documentation of distribution, and act as a distribution agent for business. Freight forwarders play a key role in supply chain management. Their vital importance has been perceived by all actors in the business world because of them suppliers, manufacturers, exporters and importers can focus on their business (Erturgut and Alnur 2015).

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

2.2 Reasons of Outsourcing

The reasons why a company decides to outsource can vary greatly. The growing business, competitive advantage, the inability to excel in all activities and other reasons forced many organizations to outsource some or most of their activities. In order to survive in the face of the competitive pressures that arises from an increasing globalization of corporations, organizations today need to perform their activities in the most effective and cost-efficient manner possible.

This has led companies to adjust the scope of their activities to only include those at which they are particularly efficient, creating need to outsource the remaining activities. Whereas the aim of the early outsourcing was mainly the short-term reduction of costs, in recent years the focus has moved toward long-term strategic cooperation (Kersten *et al.* n.d.).

Drive to be efficient through Business process outsourcing can also mean eliminating business activities which are not part of the core competences of the company or otherwise require in-house specialist. Activities, such as many back-office functions, can now days easily be outsourced to third party providers. Removing such internal processes may have positive effect on company's cost efficiency and other expenses. In support of the benefits of outsourcing (Duening & Click 2005) affirmed that outsourcing internal activities also frees resources to other projects such as R&D.

Wang and Regan also supported the idea of outsourcing by stating that it is a viable business strategy since turning non core functions over to external suppliers enables companies to leverage their resources, spread risks and concentrate on issues critical to survival and future growth (Wang & Regan 2002).

(Griffith n.d.) mentioned seven common reasons as to why companies outsource namely, reduce and control operating cost, improve host company focus, gain access to world class capabilities, free internal resources for other purposes, a function is time-consuming to manage or is out of control, insufficient resources are available internally and share risk with a partner company.

Most researchers agree that the decision to outsource is often made in the interest of lowering a firms cost and conserving energy directed towards the core functions of the firm , in order to make more efficient use of labor, capital ,technology and resources (Vallespir and Kleinhaus, Quinn and Hilmer Cited in Kwateng & Manso 2014)

As per advantages and disadvantages of outsourcing (What is Global outsourcing n.d.) companies outsource their logistics activities due to the following three key factors, Lack of expert-labor in some portions of the business process, Availability of cheaper labor, whilst not

comprising on the quality of output, Ability and process. In other review, (Denisa *et al.* 2015) stated lack of own capacities, cost reduction and experiences and specializations as the reasons for outsourcing in their study.

Studies identified many reasons to outsource and many benefits of outsourcing, some of which are the following: cost saving; improvement of services; the ability to access outside expertise; strategic repositioning; strategic sourcing; greater service integration and/or higher value creation; a search for greater efficiency and increased specialization; faster, cheaper and better support functions; solutions to problems created by business reorganization and restructuring; global supply and de-integration; global competition and the need to have fewer suppliers and higher levels of service and quality from them; and contracts with fewer suppliers and closer, long-term relationships with a smaller number of providers(Waugh and Luke 2011).

In different literatures the most frequently mentioned reasons for outsourcing logistics activities are cost reduction and focus on core competencies. Waugh and Luke (2011), Denisa et al,(2015) and Vallespir and Kleinhans,(cited in Kwateng & Manso,2004) all mentioned cost saving and focus on core activities as main reasons of outsourcing in different wordings, Improved service, lack of inside expertise and saving in capital investment were also mentioned as motives of outsourcing.

Cost reduction , focus on core business/ core competencies and improvement of service level/ service quality ranked as top three motives respectively for outsourcing as per the data from ten different authors in different studies tabularized(Kersten *et al.* n.d.). On the contrary according to Byrne, Goldberg and Richardson(cited in Wanjiru 2013) one of the most important reasons for employing third-party logistics providers is their ability to provide their clients with expertise and experience that otherwise would be difficult to acquire, or costly to have in-house.

2.3 Effects of Outsourcing Logistics Activities

By outsourcing the logistical activities a company can achieve great benefits, but it will have to cope with some common issues (Tagliapietra *et al* 1999).

2.3.1 Benefits of Outsourcing Logistics activities

Outsourcing offers numerous advantages to the customers, focus on core competencies, cost savings, quality, and flexibility, time to market and access to diverse technologies are some of the advantages mentioned on Deloitte consulting (2012).

(Mulama2012) asserts that keeping track of orders, shipping, inventory and returns, along with various other supply chain functions can be extremely time-consuming and expensive for many companies. Outsourcing these processes can be the ideal solution. Logistics outsourcing helps the firm expand internationally and operate on a much larger scale. You can do business wherever the opportunity presents itself by setting up delivery operations in another country within a relatively short time frame. He further stated that Logistics outsourcing reduces a firms risk when it starts doing business in new regions. Logistics outsourcing enables a firm to concentrate on the basic activity (core competence) and use best methods and experiences. It also Increase the firms competitiveness in that the firm can react more quickly and effectively to changing client needs. Cost-cutting and application of high technologies is also a benefit of outsourcing to many firms.

According to Lieb et al.(cited on Wanjiru 2013)across many industries, outsourcing logistics activities has become a rapidly expanding source of competitive advantage and logistics cost saving. He reported that some firms routinely have achieved 30 – 40 % reduction in logistics costs and have been able to greatly streamlined global logistics processes as a consequence of outsourcing. Logistics significantly contributes to company's competitive advantage.

Reduced operating and or capital cost, increased flexibility and adaptability, strategic focus to core capabilities, improvement in customer service, access to expertise, access to technology, reduced risks and increased agility and flexibility to accommodate future and current needs and challenges were mentioned as perceived advantages of outsourcing logistics activities(ASL distribution services 2014).

According to (Tagliapietra et al. 1999) the advantage that a company could gain through outsourcing can be seen both from the operational and the strategic point of view. Too often

companies look at outsourcing as a mean to lower only short-term direct costs (operational impact). However, through strategic outsourcing, companies can lower also their long-term capital investments and leverage their key competencies significantly (strategic impact). The following is a summarization of the operational and strategic advantages of outsourcing.

2.3.1.1 Operational Impacts

Cost reduction- the outsourcer can experience lower logistics costs due to the increased efficiency of the TPL.

Improved logistics service- the outsourcer can benefit from the third party logistics provider's increased levels of service consistency. This enhances efficiency and can lead to higher customer satisfaction.

Reduced inventory costs-access to state of the art physical distribution systems through outsourcing can reduce the amount of inventory required in the system. This results in lower inventory costs for the outsourcer.

Capital investment reduction- the outsourcer doesn't have to face the asset investment because it is using the TPL provider's facilities and equipment.

Upgrade logistics system-the outsourcer can gain access to state of the art logistics capabilities, at a fraction of the cost of upgrading its own system, by outsourcing its logistics functions.

Accommodated seasonal peaks- the problem of seasonal changes shifts from the outsourcer to the TPL provider, so the former doesn't have to cope with it and can achieve great flexibility.

2.3.1.2 Strategic Impacts

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.

Easier access to foreign markets- an enterprise can gain access to foreign markets much more rapidly with the help of a TPL provider than if it tried to setup its own logistics network. By engaging in outsourcing, the outsourcer gains access to the previously established local contacts of the third party logistics provider. It also acquires the ability to resolve local regulatory

problems and overcome cultural differences using local expertise with professional accreditation. Possibly most important, however, is the opportunity to enter a new market without the necessary infrastructure costs. This reduced cost diminishes the risk of entering new markets.

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 (Tagliapietra *et al* 1999).

2.3.2 Challenges of Logistics outsourcing

There are many potential benefits from logistic outsourcing. However, there are also huge potential risks associated with it (Denisa *et al.* 2015).

According to Gitaari (cited in Wanjiru 2013) the challenged faced were vendors not providing quality services as agreed, decreased company loyalty and lack of confidentiality on company matters.

According to Haizer& Render (cited in Wanjiru 2013) some of the drawbacks of outsourcing include loss of control and creating future competition; they give the Intel as an instance to show how outsourcing can in result in creation of competition. Intel outsourced chip production to Advanced Micro Devices (AMD) when it could not cope with the early demand. Within a few years AMD became a leading competitor manufacturing its own chips

Besides losing control, losing touch with important information, failure to select or manage providers properly, unreliable promises of the providers, their inability to respond to changing requirements, their lack of understanding of the buyer's business goals and difficulty of changing providers have also been cited as potential problems by their users (Bradley, cited in Wanjiru 2013).

Wang and Regan 2002, in their study mentioned the following as risks of logistics outsourcing.

The possibility of inefficient management- if a firm has an efficient, well-managed distribution system, outsourcing that system may not reduce operating cost. If an in house logistics activity had poor operational performance a firm may be tempted to outsource it to third party. If a firm selects outsourcing, the executive also have to know how to manage contracts and relationships with third party logistics provider.

Latent information asymmetry- there exist information asymmetry in logistics outsourcing. The third party logistics provider rarely has complete information about the user; similarly the user may have incomplete information about the third party logistics provider.

Loss of logistics innovative capacity- if a firm has outsourced its logistics activity, its logistics innovative ability may be impaired.

Hidden costs- they affirmed that benefits can be eroded by costs that firms' manager cannot identify in advance many firms underestimate the costs associated with selecting third party logistics providers, and negotiating and drafting contract. Additional time and expense early on helps to avoid problem later, such as having to renegotiate the contract or constantly monitor the logistics provide to get the needed performance.

Dependence on third party logistics provider- they highlighted that a firm that outsource its logistics activities to outside provider face the risk of becoming dependent on that provider.

Loss of control over third party logistics provider- they stated that all collaborative projects results in some loss of control. In outsourcing agreement, partial control of a project inevitably passes from sponsor to the collaborator. The extent to which the firm may effectively control an outsourced logistics business will greatly determined by the information received and early detection of a problem.

Problems of evaluating and monitoring third party logistics service provider performance- it's the authors' belief that in order to evaluate properly the functions of third party logistics provider firms should have in place clear guideline for appraising third party logistics provider outcome. On the contrary most often, this factor have been frequently neglected when firms develop a partnership with third party logistics providers.

Conflicts of culture-they suggested that to ensure the viability of the partnership factors such as management style, degree of bureaucracy should be considered. Because, it is obvious that in logistics agreement, the goals of each party is often different.

Li-jun (cited in Denisa et al 2015) describes a control model of logistics outsourcing risks which includes the following five basic types or categories:

Contract risk – is the risk that a third party logistic provider cannot fulfill all requirements in required quality or required time.

Management risk – this type of risk can be caused by the difference between the management methods and the culture of the company used by the provider and client.

Information risk – is the risk of poor quality information sharing which can result in serious problems and dramatic losses.

Market risk – this type of risk refers to market fluctuations such as labor price, raw materials price, the changes in customer demand, etc.

Financial risk – financial risk means that the real return on investment of logistic outsourcing is lower than the expectation.

On study made by Tagliapietra et al. (1999) the main disadvantages or challenges that the management can face are:

Loss of critical skills- If the company doesn't realize that the logistic function in question is a core activity for itself, and it decides to outsource it, it will lose the specific skills that constitute part of its competence.

Loss of cross-functional skills- communication among the different functional departments is usually difficult enough in a normal company, especially regarding logistics. It is easy to understand that it will be more difficult if the function is taken over by an external company (the

outsourcing provider), so one of the main issues in the implementation of the TPL relationship concerns the information system and its interfaces.

Loss of control over the supply chain- since the logistics functions are being outsourced to another firm, which the parent company has no control over, it may mean a loss of control over the logistics process and the service levels. This may in fact lead to the risk of trusting your partner too much; in fact there are no legal restrictions on the penalties that can be sentenced on vendors for service levels not reached.

Human resource issues- the outsourcing usually means a reorganization of the work and may sometimes not be accepted by management and employees, which can see the outsourcing provider as interference. Management should solve this issue by focusing on commitment and employee education.

Lack of global logistics providers- even though the trend is to have a unique partner in outsourcing in order to achieve better communication and co-ordination, and even though we are going towards the globalization of the markets, the company cannot trust a world-wide logistics network that would completely cover all of the relevant markets.

2.3.3 Metrics on the effects of outsourcing Logistics Activities on Logistics Performance

Customers increasingly expect shorter delivery times and more accurate services. As a result control of logistics service providers increase in complexity and the idea of measuring performance came in handy. Performance indicators can support the management of complex systems (Melnik *et al.*, cited in Krauth , Moonen, Popova& Shut n.d,).

As there are varied parameters determining the form and character of provided services, it is hard to present an explicit measure which shows to what degree and on what quality level a given service was provided. Definition of service quality according to norm ISO 8402 is understood as satisfaction and contentment of the customer referred to as subjective impressions, observations and sensations of the recipient (Zwolinska 2012).

Zwolinska also mentioned the most commonly mentioned quality level assessment in shipping service timeliness of both loading and unloading of goods, price level in reference to competition and existing supply and demand on TSL market, expertise and professionalism of shipping consulting, parameters and technical condition of the vehicles, lack of damages to transported

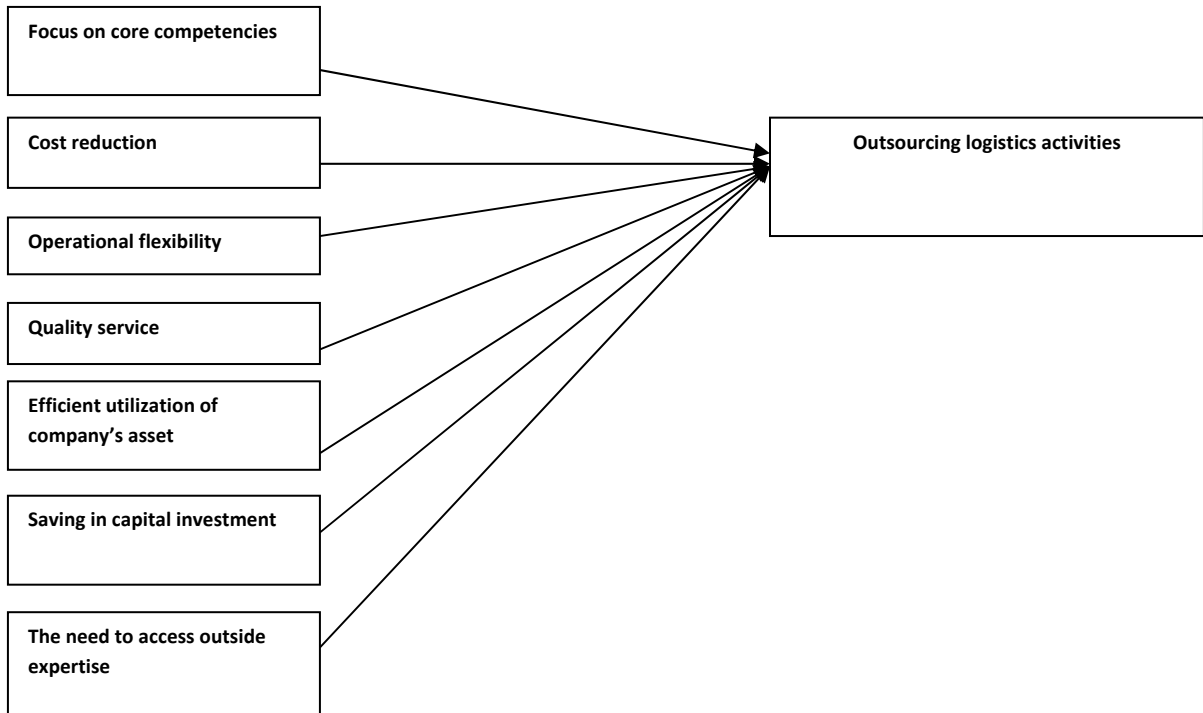
load and lack of defects in delivered goods, correctness of documentation, fast and efficient reaction of forwarding agents in a situation of danger to the correctness of service provision, and overall level of the provided shipping services.

In another study, Sources of freight forwarding KPI's (n.d.) 9 core KPIs were stated labor productivity, on time pickup and delivery, revenue yield, fuel efficiency, maintenance cost, miles driven outside of a predetermined route, border delays, loading and unloading time and damages, were mentioned that are useful to track and understand outsourced freight forwarding activities.

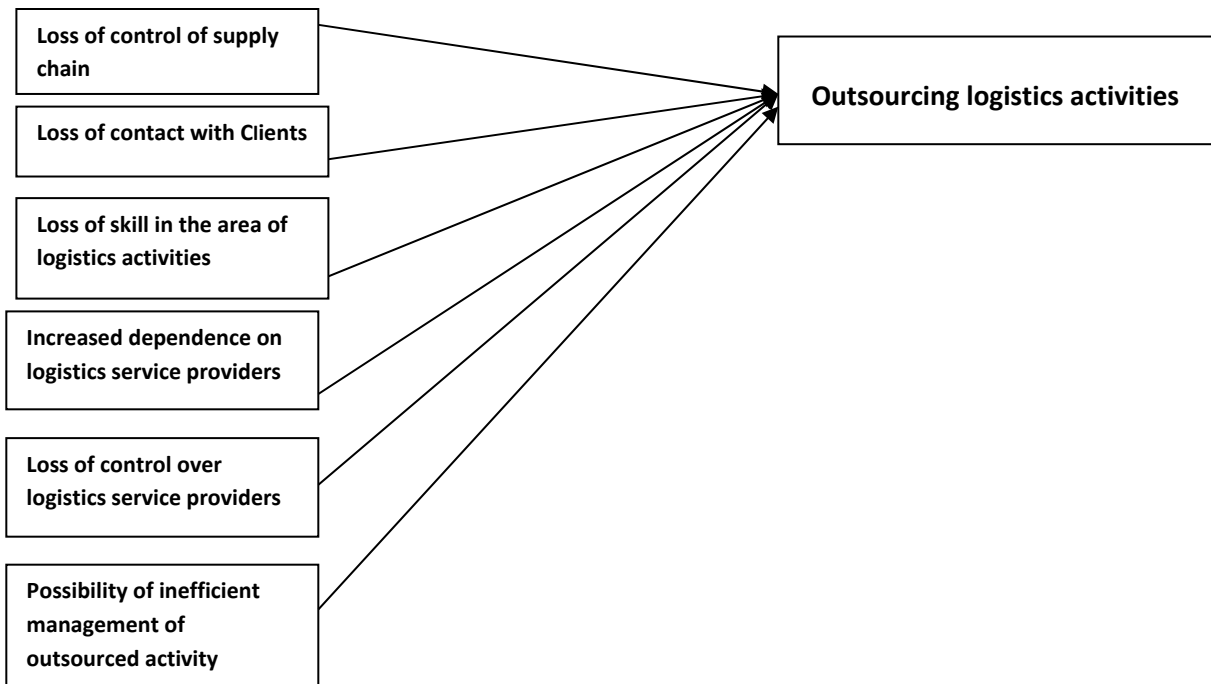
(Dzogbewu 2010) mentioned delivery time, Receiving /unloading and dispatch/loading and responsiveness and flexibility as performance measures, he also agreed that factors like cost and overall quality are also very important when considering outsourcing, in addition he highlighted that trying to perform 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.

2.4 Conceptual frame work



Conceptual frame work on rationale behind outsourcing logistics activities and benefits of Logistics outsourcing (source: Self prepared)



Conceptual frame work for challenges of Logistics outsourcing (source: self prepared)

Chapter Three: Research Design and Methodology

This chapter will cover the type of research that are used in the study, its design, the subject of the study, source of data, type of data, instrument and procedure of data collection and methods of data analysis.

3.1 Research Design

Descriptive survey is used for this study because it is useful for describing the data collected in research studies and to accurately characterize the variables under observation within a specific sample (Marczyk, DeMatteo & Festinger 2005).

3.2 Sample and sampling technique

3.2.1 The Population

The population for this study is all employees of Ethiopian Airlines who work in the logistics department. Under the logistics department of Ethiopian Airlines there are 52 employees of which 1 is Logistics manager, 3 team leaders and 38 Logistics officers, assistant and associate logistics officers. Census is used so all employees are considered for this study.

3.3 Sources of Data

Both primary and secondary data are used for this study. The primary data is collected from employees of Ethiopian Airlines logistics section. While the reports, manuals and other documents are secondary sources that are used for this study.

3.4 Data Collection Method (Instrument of data collection)

The data for this study is collected through a questionnaire and interview. The questionnaire is developed by the researcher itself with the help of related literature, it is comprised three parts. The first part incorporates basic personal information of the respondents. The second part includes questions about rationale for outsourcing logistics activities while the third and fourth part incorporated questions 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 Ethiopian airlines .Items of the questionnaire are set up in likert type

attitude scale which signifies the level of agreement and disagreement. A supporting interview with logistics manager and team leaders working in the company was also undertaken.

3.5 Reliability and Validity

Cronbach's alpha is the most common measure of internal consistency ("reliability"). It is used to check the reliability of the data collection instrument (questionnaire) for this study. It is believed to be a very good measure of reliability. Brown (2002) stated that logically, it is the easiest since it doesn't require administering the test twice or having two forms of the test unlike other reliability tests. It is also most commonly used when you have multiple Likert questions in a survey/questionnaire that form a scale and you wish to determine if the scale is reliable. As per the Cronbach's alpha test conducted all items scored alpha coefficients greater than 0.7 which indicate a good internal consistency. The corrected item total correlation for challenge items, outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of skill in the area of logistics activities and outsourcing of freight forwarding activities of Ethiopian airlines will result in increased dependency on the logistics service providers were less than 0.3. Consequently, the items were omitted from the analysis. With the same token the only financial metric cost saving was omitted from the analysis to increase internal consistency after the Cronbach's alpha test was conducted.

Table1. Cronbach's Alpha Constructs

Construct	Items	Cronbach's Alpha	Internal Consistency
Total items	28	0.863	Good
Reasons of Outsourcing	7	0.833	Good
Benefits of Outsourcing	7	0.810	Good
Challenges of outsourcing	6	0.701	Good
Metrics to measure effects of outsourcing	8	0.714	Good

As per (Marczyk *et al.* 2005) validity refers to what the test or measurement strategy measures and how well it does so. Conceptually, validity seeks to answer the following question: "Does the instrument or measurement approach measure what it is supposed to measure?" to guarantee its validity, the questionnaire were developed from relevant literature, in addition to further

check the validity of the questionnaire, it was given to three professional researchers to confirm if it is capable of measuring what it is intended to measure. Depending on the feedback some questions were amended, rephrased, some were added and some omitted.

3.6 Procedure of Data Collection

This section of the study presents the procedures that will be used to collect data from Ethiopian Airlines logistics section.

Questionnaires with both open and close ended questions which are organized in likert scale. And it was distributed to logistics department employees of Ethiopian Airlines. Interview was conducted with the Logistics managers and Team Leaders of the logistics department. In addition the documents obtained from the company were reviewed. The purpose of the questionnaire and the interview were made clear to the respondents in advance to avoid any kind of confusion. The introductory section of the questionnaire included a clause about confidentiality of the responses. The interview and the distribution of the questionnaire were 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 is analyzed quantitatively whereas the data gathered through interview and open ended questions in the questionnaire is analyzed qualitatively.

3.7 Method of Data Analysis

Data collected through close ended questions in the questionnaire are analyzed quantitatively using descriptive statistics in a way of percentages, frequency distribution , mean and average mean were used to analyze items in 'disagree- agree' continuum. The reasons, benefits and challenges of outsourcing logistics services were ranked depending on the mean value of the respondents. The average means of the benefits and the challenges of outsourcing were compared to see which one outweighs. While data collected through open ended questions in the questionnaire and interview were analyzed qualitatively.

Chapter Four: 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 questionnaire with only two open ended items in the background section and 31 close ended items. The numbers of questionnaires distributed were 52 in order to include all employees in the logistics section.

Nevertheless, 46 copies of questionnaire distributed were returned. Consequently, 42(80.7%) 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 the logistics manager and the three team leaders. However the interview was conducted with the logistics manager and two of team leaders only as one team leader was not available during the interview.

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

Items	Characteristics of Respondents	
	Frequency	Percentage
Educational Qualification		
Diploma	4	9.5
BA/BSc	38	90.5
Total	42	100
Field of Study		
Social Science	27	64.3
Natural Science	15	35.7
Total	42	100
Years of Experience		
< 5 Years	28	66.7
5-10 Years	11	26.2
11-15 Years	3	7.1
Total	42	100

As can be seen from the above table the employees in the logistics section of Ethiopian airlines are well qualified more than 90 percent of them being BA/BSc holders. It can also be referred from the table that Ethiopian airlines 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 workers of stores and logistics section when this section (Logistics department) was established on its own. 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 3 Rationale behind outsourcing freight forwarding activities

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
	f	%	f	%	f	%	f	%	f	%		
Business focus (focus on core activities)	14	33.3	21	50	2	4.8	5	11.9	-	-	4.05	4
Cost and revenue(cost reduction)	10	23.8	25	59.5	5	11.9	2	4.8	-	-	4.02	5
Operational flexibility	13	31	20	47.6	5	11.9	4	9.5	-	-	4.00	6
Service quality	12	28.6	18	42.9	9	21.4	3	7.1	-	-	3.93	7
Efficient utilization of company's asset	16	38.1	18	42.9	4	9.5	4	9.5	-	-	4.10	2
Saving in capital investment	15	35.7	16	38.1	10	23.8	1	2.4	-	-	4.07	3
The need to access outside expertise(no inside expertise)	23	54.8	17	40.5	-	-	2	4.8	-	-	4.45	1

4.2. Rationale Behind Outsourcing of Logistics 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 Ethiopian airlines rationales for outsourcing its freight forwarding activities. From all the rationales the highest ranking are the need to access outside expertise, efficient utilization of company's asset and saving capital investment 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. Ethiopian Airlines doesn't have inside experts which took the training from the Ethiopian customs revenue authority 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 Ethiopian Airlines doesn't have in house expertise and the necessary capital to perform the tasks of freight forwarding.

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 Ethiopian airlines to focus on its core activities	15	35.7	21	50	2	4.8	4	9.5	-	-	4.12	4
Outsourcing freight forwarding activities help Ethiopian airlines to reduce its operational cost	11	26.2	23	54.8	7	16.7	1	2.4	-	-	4.05	5
Outsourcing freight forwarding activities gives Ethiopian Operational flexibility	13	31	23	54.8	2	4.8	4	9.5	-	-	4.12	4
Outsourcing freight forwarding activities help Ethiopian airlines to give quality Service to its end customers	13	31	20	47.6	7	16.7	2	4.8	-	-	4.05	5
Outsourcing freight forwarding activities help Ethiopian airlines for efficient utilization of company's asset	18	42.9	16	38.1	5	11.9	3	7.1	-	-	4.17	3
Outsourcing freight forwarding activities help Ethiopian airlines in Saving in capital investment	20	47.6	16	38.1	5	11.9	1	2.4	-	-	4.31	2
Outsourcing freight forwarding activities help Ethiopian airlines to access outside expertise (which is not available in house)	28	66.7	12	28.6	-	-	2	4.8	-	-	4.57	1
Average mean												4.2

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 Ethiopian airlines logistics section as well. It can also be seen from the table that the need to access outside expertise, saving in capital investment and efficient utilization of company's asset are the highest ranking benefits of outsourcing freight forwarding activity by Ethiopian airlines respectively. The interview also confirmed access to outside expertise and saving in capital investment as benefits.

Table 5 Challenges 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 of Ethiopian airlines will result in loss control of its supply chain	6	14.3	12	28.6	10	23.8	13	31	1	2.4	3.21	3
Outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of contact with its clients	2	4.8	12	28.6	14	33.3	13	31	1	2.4	3.02	4
Outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of control over logistics service providers	6	14.3	16	38.1	6	14.3	13	31	1	2.4	3.31	2
Ethiopian airlines might face the possibility of inefficient management because of outsourcing its freight forwarding activities	8	19	25	59.5	3	7.1	5	11.9	1	2.4	3.81	1
Average mean												3.34

4.4 Challenges of outsourcing Logistics Activities

The main challenge of outsourcing freight forwarding activities of Ethiopian airlines is the possibility of inefficient management of the outsourced freight forwarding activities. However all items stated as challenges scored mean greater than acceptable mean level. As per the interview held also possibility of inefficient management of outsourced freight forwarding and increased dependency on 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 4.2 while for average mean for challenges is 3.34. It can be inferred that the benefits of outsourcing outweighs challenges of outsourcing in Ethiopian Airlines.

Table 6 Metrics to measure effects of outsourced freight forwarding activities on logistics performance

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Mean Value	Rank
	f	%	f	%	f	%	f	%	f	%		
Picking and delivery accuracy	13	31	27	64.3	2	4.8	-	-	-	-	4.26	4
On time delivery	23	54.8	16	38.1	2	4.8	1	2.4	-	-	4.45	1
Responsiveness and flexibility	20	47.6	18	42.9	2	4.8	2	4.8	-	-	4.33	2
Overall quality	17	40.5	22	52.4	1	2.4	2	4.8	-	-	4.29	3
On time receiving (unloading and dispatch) loading	19	45.2	15	35.7	4	9.5	4	9.5	-	-	4.17	5
Mistakes and damages in delivery	12	28.6	12	28.6	10	23.8	7	16.7	1	2.4	3.64	6
Loss in delivery	9	21.4	15	35.7	12	28.6	4	9.5	2	4.8	3.60	7

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 4.45), picking and delivery accuracy (with mean 4.26), overall quality (mean value 4.29), responsiveness and flexibility (mean value 4.33), loss (mean value 3.6), mistakes and damage on delivery (mean value 3.64) and on time receiving and loading (mean value 4.17). 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.

Chapter Five: 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. 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 saving in capital investment were ranked 1 up to three based on their weighted mean. So it can be inferred that 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 form 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 Ethiopian airlines benefits in the form of focus on core competence, reduction of cost, operational flexibility, quality service provision, effective utilization of company's asset, saving in capital investment and to access outside expertise but with varying extent. The first ranking benefit as per the result of the analysis is access to outside expertise while saving in capital investment and efficient utilization of company's asset 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 Ethiopian Airlines face due to outsourcing

its freight forwarding activities. Loss of control over the supply chain, loss of contact with clients and loss of control over logistics service providers are also other challenges faced by Ethiopian airlines 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 Ethiopian airlines logistics performance. However all items, mistakes and damages on delivery and loss on delivery being metrics with the least effect, scored mean value greater than the average mean

5.2 Conclusions

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

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 Ethiopian airlines outsource its freight forwarding activity is the need to access outside expertise due to lack of the in house capability. Efficient utilization of company's asset and saving in capital investment are the other higher ranking reasons of Ethiopian airlines for outsourcing of its freight forwarding activity.
2. In line with the reasons of outsourcing its freight forwarding activities, the greatest benefit Ethiopian airlines get from outsourcing of its freight forwarding activities is access to outside expertise, the second highest benefit being saving in capital investment. 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 Ethiopian airlines 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 control over the supply chain 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 organization which leads to increased operational cost.
4. Following the analysis and summary of the findings, the major performance metrics that made Ethiopian airlines value the freight forwarding service providers is based on time delivery of their shipments, responsiveness and flexibility to the needs of Ethiopian by the 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).

5.3. Recommendation

It can be seen from the summary of findings and conclusions outsourcing its freight forwarding activities affected Ethiopian airlines 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 Ethiopian airlines to outsource its freight forwarding activity are Lack of in house expertise (absence of License to perform its own customs clearing activity) and capital investment. Therefore, it is recommended that, in collaboration with the Ethiopian Customs and Revenue authority Ethiopian Airlines should avail customs clearance training to its employees so that they could be licensed as it will help them control and support the TPL providers and it is also one step forward for their long run plan of performing freight forwarding and customs clearance activities in house.

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 Ethiopian 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, saving in capital investment and efficient utilization of company's asset. So as Ethiopian airlines itself is a logistics company it should plan to perform its freight forwarding activity in house and become a fully fledged logistics company
3. The challenge Ethiopian airlines 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 employees 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. Ethiopian Airlines 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,

Please take some time off your busy schedule to respond to these questions which would be used for academic purpose only: a thesis to be submitted to Addis Ababa University, school of commerce for the award of MA degree in Logistics and Supply Chain Management. The information you give will be kept confidential, no need to write your name.

Kindly make sure you have responded to all the questions.

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

<input type="checkbox"/> < 5	<input type="checkbox"/> 5-10	<input type="checkbox"/> 11-15
<input type="checkbox"/> 16-20	<input type="checkbox"/>	

3. Qualification

Diploma <input type="checkbox"/>	BA/BSc <input type="checkbox"/>	
MA/MSc <input type="checkbox"/>		

4. Field of Study _____

Part 2**Rationale 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
Business focus(focus on core activities)					
Cost and revenue(cost reduction)					
Operational flexibility					
Service quality					
Efficient utilization of company's asset					
Saving in capital investment					
The need to access outside expertise(no inside expertise)					

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 Ethiopian airlines to focus on its core activities					
Outsourcing freight forwarding activities help Ethiopian airlines to reduce its operational cost					
Outsourcing freight forwarding activities gives Ethiopian Operational flexibility					
Outsourcing freight forwarding activities help Ethiopian airlines to give quality Service to its end customers					
Outsourcing freight forwarding activities help Ethiopian airlines for efficient utilization of company's asset					
Outsourcing freight forwarding activities help Ethiopian airlines in Saving in capital investment					
Outsourcing freight forwarding activities help Ethiopian airlines to access outside expertise (which is not available in house)					

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 Ethiopian airlines will result in loss control of its supply chain					
Outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of contact with its clients					
Outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of skill in the area of logistics activities					
Outsourcing of freight forwarding activities of Ethiopian airlines will result in Increased dependency on the logistics service providers					
Outsourcing of freight forwarding activities of Ethiopian airlines will result in loss of control over logistics service providers					
Ethiopian airlines 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 _____

Appendix 2

Addis Ababa University

School of Graduate Studies

Department of Logistics and Supply Chain Management

A Guideline of Interview Conducted with Logistics Manager and Team Leaders of Logistics Department of Ethiopian Airlines

1. Being a Logistics provider itself why do Ethiopian Airlines outsource its freight forwarding activity?
2. What are the benefits that Ethiopian Airlines gets by outsourcing its freight forwarding activities?
3. What are the challenges faced by Ethiopian Airlines due to outsourcing of its freight forwarding activities?
4. What are the major metrics of performance your company use to measure the impact of outsourced freight forwarding activities?