



**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF COMMERCE**

**ASSESSMENT OF OUTSOURCING DISTRIBUTION PRACTICES, DRIVERS, AND  
CHALLENGES OF ETHIOPIAN AGRICULTURAL TRANSFORMATION AGENCY-ATA**

**BY: - SAMSON FEKADU**

**ATHESSUBMITTEDTOADDISABABAUNIVERSITY,SCHOOLOFCOMMERCE  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THEAWARD OF THEDEGREEOF MASTEROF ARTSINLOGISTICSAND SUPPLY CHAIN  
MANAGEMENT**

**ADVISOR: - BUSHATEMESGEN (PH. D)**

**JUNE 2022**

**ADDIS ABABA, ETHIOPIA**

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**ADDIS ABABA, ETHIOPIA**

**Addis Ababa University**  
**School of Commerce**  
**Department of Logistics and Supply Chain Management**

This is to Certify that the thesis prepared by **Samson Fekadu**, entitled: Assessment of Outsourcing Distribution Practice, Drivers, and Challenges in case of Ethiopian Agricultural Transformation agency submitted in partial fulfillment of the requirements for the Degree of Master of Arts in Logistics and Supply Chain Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

Advisor: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Internal Examiner: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

External Examiner: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

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Chair of Department or Graduate Program Coordinator

## **Certification**

The undersigned certifies that he has read and hereby recommends for acceptance by the Addis Ababa University a thesis entitled: “Assessment of Outsourcing Distribution Practice, Drivers and Challenges of Ethiopian-ATA” under my guidance and supervision. Accordingly, I here assure that his work is appropriate and standard enough to be submitted for the award of Master of Arts in Logistics and Supply Chain Management. Busha Temesgen (PhD)

\_\_\_\_\_ Research Advisor Signature Date

## **Declaration**

the undersigned, declare that this thesis entitled **Assessments of outsourcing distribution practices, drivers, and challenges of Ethiopian Agricultural Transformation Agency**, is my original work, has not been presented for a degree by anyone else to the best of my knowledge, and that all sources of materials utilized in the thesis have been properly acknowledged.

**Declaredby:Samson Fekadu**

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**Date&Signature**

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## **Abbreviation**

3PL: Third Party Logistics

ATA: Agricultural Transformation Agency

ACC: Agricultural Commercialization Cluster

ATA: Agricultural Transformation Agency

FPC: Farmer Production Cluster

GTP: Growth and Transformation Plan

MoA: Ministry of Agriculture

LSPs: Logistics Service Providers

RBD: Resource Based View

SLA: Service Level Agreement

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## **Abstract**

The goal of this lookup used to be to determine the outsourcing of distribution practices, drivers, and challenges of Ethiopian Agricultural Transformation Agency with the intention of identifying, drivers of outsourcing distribution activity, Practices of outsourced distribution functions, and challenges of Outsourcing distribution activity. It was once carried out questionnaires and interview to get applicable facts about the study. To this end, the researcher has gathered statistics from fundamental sources the use of questionnaire, interview and non-public observation. Descriptive kind of lookup is utilized the usage of SPSS software program to existing and analyze the statistics gathered from forty-eight respondents. The discovering indicates that outsourcing distribution undertaking used to be a best answer that helps the business enterprise environment friendly utilization of Organizational Budget plan, to get Cost Savings Distribution gain of the business enterprise and the organization-driven initiative is to gain a greater quantum of focal point on core business. This lookup discovering has proven that the implementation of outsourcing distribution undertaking faces challenges that would influence implementation of distribution plan. To overcome outsourcing distribution challenges, the employer needs to design or agenda for required objects or offerings and make clear the roles and obligations of each event and enforce correct monitoring and comparison machine a precise verbal exchange device must additionally be hooked up between outsourcing group of the business enterprise and third-party transport providers.

Key words: - Outsourcing, Distribution, Ethiopian-ATA

# CHAPTER ONE

## Introduction

### 1.1 Background of the Study

The advancement of information technology and globalization make easy to outsource activities which are non-core and less competitive business functions. The drive for greater efficiency and continuous cost reduction has forced many organizations to outsource activities which traditionally were carried out in-house. For this reason, organizations can focus on their core competencies, which contribute most to a sustainable competitive advantage (Gewald, 2010). The growth of outsourcing market is increasing in types that moves from activities that are noncore to the organization such as cleaning, catering, and security, to include core areas of activity such as design, manufacture, marketing, distribution and information systems with almost the entire value chain open to the use of outside supply (McIvor, 2000). There has been a need for firms or organizations to increase operational efficiency to ensure timely delivery of their products gaining competitive advantage or attaining their objectives. One of the strategies firms or organizations have adopted is outsourcing. Outsourcing is the movement of organization's internal activities, decisions, and responsibilities to outside provider(s) (Wachira, Brookes & Haines, 2016).

Outsourcing known as a good technique for management can be defined as the strategy of using outside resources to implement activities traditionally managed by internal staff. According to Letica (2016). Outsourcing is a strategy by which an organization pact out some of their main services to specialized and efficient service providers, who turn into valued business partners. Outsourcing has become one of the most important approaches a business should adopt due to the increase of globalization and through this strategy; organizations can acquire a competitive advantage if products or services are implemented more effectively by outside service providers. For an organization to be able to adapt on market change and complications of anticipating the direction of such changes means that they must emphasize on their core competencies and abilities (McIvor, 2008). Outsourcing is an abbreviation for "outside resource using". Outside means to create value from external, not within the organization (Yang et al., 2007). Outsourcing is allocation of services that should be performed inside the company to an

external service provide and has become one of the essential factors in several business strategies (Hern & Burke, 2006)

Many organizations and institutions recognize the value in freeing themselves from costly, time consuming, and highly complex administration of the activities, they will hand over the day-to-day management of those non-core business functions to external service providers. As a result, they can save costs, gain profits and improve efficiencies from the current updated technology, and have time to focus on the strategic practices, leading to the organization's long-term success and competitive advantage (Rothery and Robertson, 1995). Consequences of huge operational activities load have introduced challenges not only of providing but also of improving the quality of their services.

The Ethiopian Agricultural Transformation Agency (ATA) is an initiative by the Government of Ethiopia (GOE) since 2009, with the primary aim of promoting agricultural sector transformation by supporting existing structures of government, private sector and other non-governmental partners to address systemic bottlenecks and deliver on a priority national agenda to achieve growth and food security. The programmatic focus of the Agency responds to a core set of needs identified by the Ministry of Agriculture and the Transformation Council. Across the programs, the ATA engages public, private and non-governmental stakeholders to support strategic planning, manage and strengthen implementation capacity and test innovative models. The ATA will be financed by GOE and a range of development partners. ATA in order to attain its objectives and concentrate on its core objectives of implementing different programs and projects that helps achieve its goals implemented logistics outsourcing as its strategy and outsourced distribution logistics process to third party.

The global trend of outsourcing is growing fast in terms of complexity and market whereas the growth of outsourcing in Ethiopia is at its infant stage. It is dominated by non-core functions like Security and Janitorial service (Meresea,2007). In Ethiopia very few research are conducted in the area of outsourcing logistics and none of these researches are directly related to the practice of outsourcing distribution or transportation logistics to third party logistics service providers in government initiative organization. Therefore, this study assessed the current outsourcing practices of organization that promoting agricultural sector transformation and the challenges faced by the organization in implementation of its distribution plan according to the

time, budget and customers' needs. It also needs to fill the knowledge gap that occur in literature regarding outsourcing distribution or transportation logistics service by reviewing different literatures and assessing the best practice and found solution for the problems.

## **1.2 Statement of the problem**

Logistics outsourcing is the act of subcontracting logistics activities to firms equipped to provide the services (Lynch, 2004). Wachira, Brookes and Haines (2016) defined outsourcing as movement of the organization's internal activities, decisions, and responsibilities to external provider(s), thus logistics outsourcing involves the contracting of the logistics functions of the firm to other parties. These parties include first party logistics providers, second service party providers, third party service providers and fourth party service providers. Logistic activities which can be outsourced rang from execution activities such as transport, distribution, warehousing, inventory management, order processing and materials handling.

Organizations have opted for logistics outsourcing anticipating cost reduction and enhancement of value during distribution and transportation of goods. Even if 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. Furthermore, outsourcing will also help companies to use outside expertise which is not available inside the company. As a result, the concept of outsourcing the logistics function, either partially or wholly, to logistics service providers (LSPs) has increasingly been adopted across the industry (Selviaridis & Spring, 2007).

Though outsourcing really provides a numerous benefit to the client, it is not without having any negative impacts to the receivers of the services. Logistics outsourcing requires integration of firms' activities with service providers. This exposes the firm to great risk, that is, sharing of customer and suppliers' data bases amongst other critical information, which if improperly used could play an important role in the competitive decline of firms (Barthelemy, 2003). Logistic outsourcing also results to dependent to the service provider hence quite inflexible. Such negative impact thus needs to be evaluated before opting for logistics outsourcing. Failure to

adequately scrutinize the outsourcing decision leads to reversing the outsourcing decision, back-sourcing, which is expensive and challenging (Brabham, 2008; Quélin & Duhamel, 2003). In addition, some of the problems that arise due to outsourcing non-core business functions are operational difficulties in that service provider may deny specific technical expertise, capability and capacity for delivering the desired performance. These are some of the reasons for outsourcing failure; selecting wrong service providers; writing a poor contract; overlooking personnel issue; losing control over the outsourcing activity; overlooking the hidden costs of outsourcing; and failing to plan an exit strategy. Most of the time, these outsourcing failures are rarely reported because firms are reluctant to publicize them.

The growth in outsourcing of logistics services has resulted more from an accident than by design due to its encouraging impact on the operational efficiency. Currently many organizations outsource one or more of the business functions from outside vendors. Moreover, as various research indicates 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 except for outsourcing some non-core functions like security and janitorial services (Meresea 2007). Since the past few years, many organizations prefer to transfer non-core business functions to be performed by an external third party with the aim of reducing considerable transaction costs, improving quality of service delivery and to concentrate on their core competencies.

The ATA is an initiative by the Government of Ethiopia (GOE) with the primary aim of promoting agricultural sector transformation by supporting existing structures of government private sector and other non-governmental partners to address systemic bottlenecks and deliver on a priority national agenda to achieve growth and food security. The ATA will be financed by GOE and a range of development partners. ATA in order to attain its objectives and concentrate on its core objectives of implementing different programs and projects that helps achieve its goals implemented logistics outsourcing as its strategy and outsourced distribution logistics or logistics transportation activities process to third party. In Ethiopia very few research is conducted in the area of outsourcing logistics and none of this research are directly related to the practice of outsourcing distribution or transportation logistics to third party logistics service

providers in government initiative organization. Therefore, this study assessed the current outsourcing practices of organization that promoting agricultural sector transformation and the challenges faced by the organization in implementation of its distribution plan according to the time, budget and customers' needs.

#### **1.4 Research question**

This research conducted on the assessment of outsourcing distribution practices, drivers and challenges of Ethiopian Agricultural Transformation Agency. Therefore, based on the statement of the problem this research was tried to answer the following research questions:

1. What distribution outsourcing practices of ATA look like?
2. What are the driving factors of logistics outsourcing ATA for outsourcing its distribution logistics?
3. What are the challenges and benefits faced by ATA due to outsourcing of its distribution logistics?
4. How outsourcing distributions affect its plan implementation?

#### **1.5 Research Objectives**

##### **1.5.1 General Objectives**

The general objective of this research was to assess the practices, drivers and challenges of outsourcing distribution of Ethiopian Agricultural Transformation Agency.

##### **1.5.2 Specific Objectives**

The study tried to address the following specific objectives of the study.

5. To assess the practice of outsourcing distribution of ATA.
6. To identify the main reasons of ATA behind outsourcing of its logistics distribution.
7. To find out the challenges and benefits faced by Ethiopian Agricultural Transformation Agency in outsourcing logistics distribution.
8. To identify the effect of outsourcing on implementation of Distribution plan.

#### **1.6 Significance of the Study**

The research assessed that of practices, drivers, and challenges of distribution outsourcing of Ethiopian Agricultural Transformation. The agency with a primary aim of promoting

agricultural sector transformation by supporting existing structures of government, private sector, and other non-governmental partners to address systemic bottlenecks and deliver on a priority national agenda to achieve growth and food security. Therefore, the findings of this study are the following significance. First it helps ATA to consider its strategy and improve practices in providing with information about the outsourcing strategy of distribution implementation on its distribution plan implementation performance. Second the study will also help the management of the organization to understand how the outsourcing activities can affect the performance of the organization and it will again help management to consider the potential benefits that can be gained from involving outsourcing in their strategy. Third it will help academicians by opening for conducting additional research in the area by providing information and knowledge that needs further research. Finally, the findings of this study will be of great use to the academia, particularly for those who may wish to conduct further research on outsourcing and performance.

### **1.7 Scope of the Study**

As mentioned before this study assessed the practices; drivers and challenges of distribution logistics outsourcing of Ethiopian Agricultural Transformation Agency with the aim of identifying the effect of outsourcing distribution plan on distribution performance of the organization to any the research question. Though, there are wide outsourcing distribution practice the assessment area is delimited to transportation services of ATA. Therefore, any conclusion that was drawn from this research is based on the above circumstances.

### **Conceptual Scope of the study**

The study is conducted in Ethiopian Agricultural Transformation agency which located in AddisAbaba Head Quarter specifically on outsourcing distribution practices, drivers, and challenges assessments. Moreover, the research did not include data from Ethiopian ATA external customers.

### **1.8 Limitation of the Study**

This research was conducted by focusing on the practices, drivers and challenges of distribution logistics outsourcing of Ethiopian Agricultural Transformation. Therefore, it had the following limitation. First, these studies only focus on effects of outsourcing on distribution plan

implementation performance; hence, the results from this study cannot be generalized to overall performance of ATA. Second the study is based on available information from secondary sources and primary sources. Accuracy of the study depends on provided information, but adequate attention is given to reliability and validity. Third due to manageability of data the study focuses only on ATA workers and do not involve all stake holders that finance the ATA, that contracted with ATA to perform logistics distribution activity, and farmers that benefited from the ATA program and project. Finally, collecting well organized data from all supply chain participants or stake holders is difficult due to lack of time and finance so this study will have limitation of data.

### **1.9 Definition of the 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 within 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).

**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).

**Logistics Distribution:** - refers to activities within one company or organization related to the distribution of a product. (Xu Miaoer,2017)

**Distribution logistics or Transport Logistics:** - also known as sales logistics, deals with the planning, realization and control of the movement of goods. It is an inter-organizational logistics system, where the aim is to make the logistics channel from supplier to the customer efficient- especially in terms of costs and performance.(Xu Miaoer,2017)

**Distribution:** - is the function of ensuring that goods produced are transported from the point of production to the point of consumption efficiently, effectively and economically. ( Xu Miaoer,2017)

**Distribution Performance:** - is the planning, realization and control of the movement of goods.(Xu Miaoer,2017)

**Performance:** - can be defined as how well a firm or organizations executes its activities or functions. (Johnson, 2009).

### **1.9 Organization of the Study**

The research is divided into five chapters. The first chapter contains introduction of the study, which consists of background of the study, background of the organization, problem statement, and objective of the study, research question, and significance of the study, scope, limitations, and definition of terms and organization of the study. The second chapter deals with the theoretical, empirical literatures and conceptual framework of the research. The third chapter deals with the research methodology to be used in the study together with ethical consideration. In the fourth chapter, the researcher tries to present result and data analysis and interpretation. The final chapter would have concentrated on summary, conclusion and recommendation on the overall study based on the analysis of collected data. Finally, references and a set of appendices and other supplementary documents of the study were included.

# CHAPTER TWO

## Related Literature Review

### 2.1. Theories Related to Outsourcing

Outsourcing has a very complicated structure, which consists of several things to do and features giving upward thrust to collection of administrative and managerial dilemmas. Several theories have been used to assist scientists apprehend the nature of these operations and activities, as nicely as to assist the managers of organizations and groups take care of these techniques in an high-quality manner. It is normally normal that any phenomenon can be described via a sequence of theoretical frameworks primarily based on the corresponding approaches. Naturally enough, outsourcing has been approached making use of a sequence of one-of-a-kind theories, which can regularly lead to confusion amongst researchers (Busi & McIvor, 2008). Much of the research on outsourcing have been affected by way of the following tactics or theories:

**Transaction Cost Economics:** - The transaction-cost view (RBV) or The Transaction Cost Economics (TCE) idea has historically been the most extensively used outsourcing theory. Transaction Cost Economics (TCE) concept is the place the choice to outsource is decided through the relative transaction and manufacturing prices related with the manner or service. Transactional prices are associated to the effort, time, and fees related with searching, creating, negotiating, monitoring, and imposing a provider contract between shoppers and suppliers. The aim of any corporation is to these decrease price and to attain price effectivity (Zack and Singh, 2010). According to Dhar and Balakrishnan (2006), manufacturing prices and coordination charges are the solely charges worried for any carrier or to produce any product. Production fee is the price incurred to make the product or to grant the provider and it consists of the fee of labor, material, and capital. Coordination charges consist of monitoring, controlling and managing the work internally. For the outsourced process, the coordination fees are known as

transaction costs. Manhnke et al, (2005) noted that the relative transaction and manufacturing charges related with the procedure or carrier determines whether or not to outsource or internalize the process. The choice to outsource is to minimize transaction charges as an awful lot as feasible and for that reason the transaction price concept (TCT) viewpoint is beneficial in analyzing the contributions to transaction costs, and how these may be reduced. The researchers reached the conclusion that when the choice to outsource is primarily based on the TCE principle the result is better, as is the case when the seller manages to improve a sturdy manufacturing basis.

**Core Competencies Theory:** - The Core Competencies Theory or Competence Based View is based totally on the Theory of Resources and is an evolution thereof. Researchers Prahalad and Hamel (1990) described Core Competencies as the collective know-how of an organization, in particular about the approaches of combining exceptional productive competencies and the integration techniques of more than a few extraordinary technologies. An evaluation of the vendor's advantage is, in accordance to the Core Competencies Theory, the most important issue that determines the success of an agreement. The Core Competencies Theory has additionally been used to learn about the phases of relationship administration and reconsideration. The Core Competencies Theory is the 2nd most famous method in the tutorial lookup associated to outsourcing.

Competence-Based view is based totally on the firm's sources and skills that will provide an company a aggressive advantage. The essence is that core skills must be saved in-house whilst the different matters that the corporation does which are now not deemed core, or imperative to its mission or function, need to be viewed for outsourcing except any loss to future necessities in expertise. In order to preserve a sustainable aggressive advantage, the company competence need to reply to the dynamics of the exterior surroundings by means of enabling an corporation to hold its capacity to create cost in the commercial enterprise processes. Therefore, vendors' competences are assumed to be one of the most essential elements that have an effect on success of an outsourcing arrangement (Rodríguez and Robaina, 2006). The core competency viewpoint is beneficial in prompting serious consideration about the features which are actually fee correctly performed in-house, and these which should be outsourced. The thought has been predominantly used to increase and check quite a number outsourcing choice frameworks

arguing that the core things to do shall stay in house. However, the that means of the time period core competence is now not 10 in reality understood given that phrases such as resource, functionality and competence are used interchangeably via researchers (Ozbag, 2013). A firm's assets can be described as any manufacturing elements that are reachable to the association and they are categorised into 5 categories: financial, physical, human, technological and reputation. The first two represent the firm's tangible resources, which are handy to determine and identify, while the others are intangible resources, which are property with ample doable to gain aggressive advantage. The assets and competencies are consequently complementary in order to preserve aggressive advantage. Theory, aiming to enhance the competitiveness of the organization.

**Resource Based Theory:** -The fundamental premise of the Resource-based Theory is that assets and abilities can vary extensively amongst companies and that these variations continue to be steady (Barney & Hesterly, 1996). When the sources and abilities of an organization are combined and used in an splendid manner, they may additionally create a aggressive benefit for the enterprise. The resource-based view (RBV) is an financial theory, which discusses the strategic sources reachable to a firm. The most important precept of the RBV is that the foundation of a sustained competitive benefit lies in the utility of treasured resources, which are at the firm's disposal (Wernerfelt, 1984; Rodríguez and Robaina, 2006). The RBV considers that the association should possess special sources that allow it to obtain aggressive advantage. Resources want to be valuable, rare, non-substitutable and non-imitable. Resources consequently requires exhibiting every of the above 4 traits to be a viable supply of a sustainable aggressive benefit (Barney, 1991). This benefit can be attained if the approach being carried out is value-creating, and no longer being carried out with the aid of current or future feasible competitors. He additionally mentioned that that sustainable aggressive gain is a end result of possessing motionless sources that allow clear product or provider differentiation. However, no longer all assets have the workable to be a supply of sustainable aggressive benefit for the firm.

The mannequin generally focuses on the Transition segment and suggests that the Resource-based idea is the most gorgeous method for its interpretation. The lookup of (Roy & Aubert, 2001) used the Resourced-based concept in order to structure a mannequin which goals

at figuring out the elements affecting the success or failure of outsourcing at the Preparation phase. (Barthelemy & Quelin, 2006) proposed a mannequin primarily based mostly on the Resource-based theory, and to a lesser extent on the TCE, in order to give an explanation for the Preparation, Vendor Selection, Relationship Management and Reconsideration phases. Resource based totally view think about that sources can be exploited with the aid of capacity of contracts (Barney 1999), and so this point of view types a theoretical framework that assists in the decision-making about which activities to function in-house and which to outsource. Resource Based View (RBV) has been employed for outsourcing decisions, transferring the interest from transaction expenses and opportunism to aggressive advantage. The key precept in RBV is that, special organizational assets are the actual supply of aggressive gain and has come to be a beneficial framework to outsourcing some of the companies functions. Within RBV, the core competences method is one of the most effective frameworks to explain why groups flip to outsourcing and it suggests that on business enterprise need to make investments in these things to do constituting core competences and outsource the rest. Resource based totally view additionally points out that extended overall performance in a association can be accomplished via focusing on these sources that furnish the core competences (Barthelemy & Quelin, 2006).

**Relational Theory:** - The Relational Theory gives explanations on how corporations might also gather and preserve a aggressive benefit with regard to their relationships with different agencies (McIvor, 2005). This mannequin has been used to find out about the phases of transition, relationship administration and reconsideration. Therefore, the Relational Theory is the solely strategy that can also be utilized to the investigation of all phases of the outsourcing process. Willcocks and Choi (1995) explored the probabilities of laying the groundwork, via suitable planning, for turning the outsourcing method from a easy partnership into a strategic alliance. Using the Relational Theory, they examined the elements that can also be used to make selections at the phases of education and relationship maintenance, aiming to make alternatives that will make contributions to the advent of strategic alliances. Espino-Rodríguez and Rodríguez Díaz (2008) proposed a relational mannequin aiming to analyses the consequences of an organization's capacity to advance a relationship with the dealer at the phases of supplier determination and relationship upkeep for the improvement of aggressive advantage, based

totally on science (Sakas, Vlachos, Nasiopoulos, 2014). Yahnhong (2011) described an outsourcing mannequin primarily based on the Relational Theory, aiming to interpret the phases of Preparation, Vendor Selection and Relationship Maintenance. The lookup reached the conclusion that the advantages of the outsourcing technique are decided by using the fantastic of the relationship at its institution and with the aid of the care given via contracting events to the improvement of the relationship.

In addition to these theories indicated there is additionally different outsourcing theories such as evolutionary economics, knowledge-based view, organization theory, neo classical theories and others outsourcing theories.

### **2.1.2. Concepts of Outsourcing**

Outsourcing is an exercise wherein an organization or employer performs responsibilities, presents services or manufactures merchandise for a few different organization features that would were or is typically performed in residence. it's miles usually utilized by businesses to store fees. With an increasing number of risky organization surroundings, agencies are continuously looking for better techniques of gaining aggressive advantage. one of the techniques that companies can rent to acquire sustainable competitive advantage is outsourcing Letica (2016). The idea of outsourcing came from the yank terminology “out of doors resourcing”, meaning to get sources from the out of doors. The term become later used in the monetary terminology to signify the usage of outdoor property to increase the business enterprise, which usually had been the usage of their internal sources (Wachira, Brookes & Haines, 2016).

The phenomenon of outsourcing usually refers to procurement of substances and services inputs thru a company from a supply out of doors. in this context, outsourcing can be both inner and worldwide. inner outsourcing is the acquisition through a company of services or cloth inputs from a supply positioned in some other employer in the same united states of america of the united states. global outsourcing is defined as the acquisition via a business corporation of offerings or cloth inputs from a supply placed remote places (Hern & Burke, 2006). This time period consists of each intra-employer international outsourcing (via the usage of which overseas supplier of inputs remains held with the aid of the company), and distance international outsourcing (by using which overseas issuer of inputs is unbiased of the company that uses inputs). In present day years, the region of understanding literature changed into focused an increasing number of on outsourcing method at the same time as addressing the subject decided on format variant. The plan for the improvement of a device is decided and the choice of outsourcing and in addition to how this answer can be used at some point of any challenge to put in force the system Anikin and Rudaya (2014).

The term of outsourcing is described in extraordinary techniques by way of manner of particular students based totally at the place and shape of characteristic outsourced. the following are some of the definitions and phrases of outsourcing defined with the aid of using students. Handfield (2006) described outsourcing as “the strategic use of outdoor property to perform sports traditionally dealt with by using internal workforce and resources”. occasionally identified additionally as “facilities control”, outsourcing is a way by which an organisation contracts out fundamental skills to specialize and green company carriers who end up valued commercial enterprise partners. Outsourcing is, therefore, the strategic use of outdoor sources to carry out agency functions historically controlled by way of internal body of employees. the usage of an outsourced organisation that allows you to assist reduce prices and gain efficiencies by means of leveraging the expertise, generation, and understanding of third-party companies. Anikin and Rudaya (2014) defined outsourcing as the state of affairs wherein a organization delegates its operations to be controlled through a 3rd birthday party which could do it less expensive, higher and at a faster fee.

Gilley and Rasheed (2000) it is the substitution of sports activities completed in-residence by means of the usage of acquiring them externally, even though the enterprise has the essential control and monetary talents to expand them internally. it is also an abstention from acting sports in-residence. maximum of the definitions of the above notable authors, it's miles truly located that they come to a commonplace record in which they agree that outsourcing can be summarized within the functions of make or buy decisions, switch the project to a 3rd birthday celebration, and organizational recognition on center business agency sports activities whilst handling non-middle activities to others who're specialist a good way to growth task efficiency and charge reduction. Constant with Letica (2016) outsourcing as a key enterprise approach has been utilized by organizations in various industries for lots a long time. competitive pressures have compelled corporations to appearance objectively and appreciably at business corporation procedures. companies have been outsourcing manufacturing operations, organization offerings or maybe entire commercial corporation traces efficiently for a long term now.

The concept of outsourcing has its roots inside the competitive gain idea propagated via Adam Smith in his e book “The Wealth of countries” (1776). through the years, the which means of term outsourcing has long past thru a sea change. What began off as the shifting of manufacturing of merchandise to places or nations supplying cheap labour in the course of the industrial revolution, it has taken on a very new connotation in these days’s state of affairs Handfield (2006). in recent times, statistics technology has become the spine of businesses and performs a key function in all varieties of organization transactions. via outsourcing one organisation fingers over element or complete of its enterprise system to any other employer, making it accountable for the format and implementation as in keeping with the necessities and specs of the outsourcing enterprise. Handfield (2006).

### **2.1.3 Outsourcing Distribution Practices**

Outsourcing is the movement of organization’s internal activities, decisions and responsibilities to outside provider(s) (Wachira, Brookes & Haines, 2016). Over time, there has been a remarkable growth in logistics outsourcing (Hirschheim, Heinzl & Dibbern, 2014). According to Go’l and C, atay (2007), outsourcing logistics functions to third-party logistics (3PL) providers has been a source of competitive advantage for most companies. Firms or organization can strategize the best interests of their organization in respect of whether to outsource whole logistics functions or selectively outsource certain logistics practices based on business justifications. As part of the benefits of employing logistics outsourcing strategies, most companies aim for higher flexibility, efficient operations, improvement in customer service levels, and a narrower focus on their core businesses activities (Suhaiza, Mohd, Shaharudin, Khairul, Mohammad, 2014).

According to Laugen et al (2005), logistics outsourcing is concerned with the movement of materials or parts from the supplier to the assembly plant or retail store. Logistics outsourcing involves transmission of information, transportation, warehousing, material handling and inventory management (Bruce and Useem, 2008). Outsourcing logistics activities involves the use of a third party to provide part or all the logistics operations of the organization. Activities constituting logistics include physical distribution and material handling. Many authors discussed several categories of logistics outsourcing practices from different terms and

functions and some of the outsourced logistics activities are reviewed from various literatures here under:

### **A. Transportation Management**

Transport management deals with modes of transport, transport infrastructure, geographical location, type of delivery, load planning, routing and scheduling. The primary function of transportation is to move goods from one location to another (Rushton and Walker, 2007). Transportation is crucial throughout the management of the supply chain. Short lead time is essential for effective operations. Domestic and international transportation are the most outsourced in the supply chain. Organizations with limited need for transport should outsource their transportation to an outside organization, since transport service providers are simple to find and where the cost involved in transportation is quite low. This notwithstanding, (Klein, 2009), Rushton and Walker (2007) established that organizations which require transportation services for most of their activities are not required to outsource their transportation to outside organizations.

Hsiao et al. (2010), in their case study analysis, pointed out that companies outsourced logistics services because they do not own suitable transport vehicles, which is one of the factors lacking in the firm's physical assets. There are companies that do not possess suitable transportation means to facilitate their logistics operations and outsourcing is a business strategy that provides a way out. This is supported by Kremic et al. (2006) who mentioned that the greater the asset, the less of a candidate the function is for outsourcing. Transport vehicles are basically a general and less specific asset, thus making it an easy choice to be outsourced by most firms. Hence, firms with lack of resources and capabilities may outsource certain processes or functions in order to optimize the performance and increase the firm's competitiveness.

### **B. Inventory Planning and Management**

Odepidan (2015) defined inventory as the value of stock of raw materials, semi-finished goods and finished goods held by entities to support production or for resale. Inventory includes raw materials for further processing, work in progress and finished goods (Panayidis and Meko, 2007). Inventory control refers to the management of inventory already in the warehouse.

According to Hosie (2008), inventory management is a method used for organizing, holding and replenishing stock. Inventory management includes the type of inventory, ordering procedures and the source of supply.

Inventory management revolves around decisions on what to stock, the quantity or level of stock to maintain at any given time, and the location of stock. Inventory management includes monitoring the quantities as well as the quality of stock (Panayidis and Meko, 2007). Monitoring the quantity of stock ensures that records on stock are updated constantly. Hosie (2008) revealed that stock can also be maintained between maximum and re-order levels in order to ensure that clients' needs are promptly met. There is also monitoring of stock by periodic stocktaking. Monitoring the quality of stock ensures that stock is inspected regularly to eliminate any defects. The objective is to determine and maintain the lowest inventory levels possible that will meet the customer service policy requirements stipulated in the customer service policy. It includes forecasting; order quantity engineering, service level optimization, replenishment planning and inventory deployment (Matiwos, (2015). Odepidan (2015) revealed that when inventory management is outsourced to a third-party service provider, stocks are kept up-to-date and they are maintained between maximum and re-order levels. Stock management is usually outsourced to a third party with a view to ensure the efficient management of stock.

### **C. Warehousing Services**

Warehousing involves taking custody of the stock in a particular location or building. According to Shaharudin (2014), factors which need consideration when taking warehousing management decisions include location, number, size, type of storage, material handling and the requisite equipment. Warehousing management is frequently outsourced in view of the fact that huge capital investment is needed to build a warehouse and acquire equipment for the warehouse to function efficiently (Rushton and Walker, 2007).

Brat & Raghu, (2012) state that warehousing service contains basic service like storage, facilities management and specific value added services like Pool distribution, packing, inventory control, labeling and delivery of catalogue orders (Chopra and Meindl, 2010).

According to Lysons and Farrington (2013), a company may choose to produce a product in-house or it may decide to outsource. The decision to either outsource or produce in-house may depend greatly on the cost of production as well as the production capability of the firm. If it is cheaper for the entity to purchase the product or service than to produce it, the entity may be required to purchase the product or service. On the other hand, if it is cheaper to produce than to buy, the company may produce. According to Li (2014) the cost of setting up a warehouse makes the cost of production very high.

#### **D. Customer Response or information management practice**

According to Parashkevova (2007), information management refers to the collection and organization of information from the source of the information to the distribution of the information to its targeted consumer. Information management is a technique used to collect information, process the information and communicate the information to management for effective decision making (Vorst et al., 2007). Effective management of information systems involves the recording, storage and distribution of information within the organization. Managing an organization's information system involves timely delivery of information (Hotler et al., 2008).

The logistics of customer response includes the activities of: developing and maintaining a customer satisfaction, order entry (OE), Order Processing (OP) and invoicing. Therefore, it goes with the way we respond to customer order to full fill per the required quantity, quality and time. Customers get dissatisfied when we didn't respond to customer order within the time expected time. Besides, customer responsiveness is a source of competitive advantage in today's competition. Non responsive logistics or delayed response may result in customer loss and loss of relationship for renewed transaction with customers (Matiwos, (2015). According to Odepidan (2015), since information is important for the management of the entity, it should be well-managed to protect the interest of the business. To ensure efficiency, management can outsource its information management practice to a third party service provider.

#### **E. Transportation Services**

As per Alan Rushton and Steve Walker, 2007 it is defined as the physical movement of goods, both inbound and outbound, including the collection of product and its delivery to the end user. Transportation can be executed across a variety of modes including air, sea, rail and road. (Ensermu, (2015) also states logistics of transportation includes: network design and optimization, shipment management, fleet and container management, carrier management and freight management.

According to Thomas (2010), cost efficiency is the minimization of cost. An organization is able to achieve cost efficiency provided it is able to reduce its cost (McIvor, 2010). Companies incur cost on non-core business functions such as packaging, transportation of its raw materials, distribution of its products as well as warehousing. Thomas (2010) revealed that cost incurred on non-core business functions includes investment in capital items such as equipment, infrastructural facilities and staff. Some of the costs incurred include fixed cost and variable cost. Expenses incurred on full-time human resources such as salaries and wages are examples of fixed cost. By outsourcing, companies convert fixed costs into variable costs (Tseng et al., 2009).

## **F. Product Assembly/Packing/Labelling**

All products need packaging. The type of packaging to be used depends greatly on the value of the product. Hotler et al. (2008) noted that packaging offers protection to the products which are produced. Good packaging enables the product to get to the customer safely. When packaging of the products is outsourced to a third party, efficiency is enhanced (Odepidan, 2015). Often 3PL providers take on the responsibility of performing these activities as it is easier to consolidate all the required information and ship it to the customers. This process connects the information flow from 3PL providers, manufacturer and customer. Packing and labelling is usually performed as a single activity and also for environment sustainability (Bhat & Raghu 2012).

Historically, the word logistic was derived from the term “logistician” which was the role of the chef de l6g 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.

#### **2.1.4. Drivers or Reasons of Outsourcing**

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments (Bhattacharya, 2003) and also the technical reasons for outsourcing are quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale. Among the tactical drivers the most prominent ones are shortage of skilled workers and cost reduction opportunities. Strategic reasons include refocus on innovation and core competencies. Leading organizations are shrinking their business cycles and tightening feedback loops (Brown and Wilson, 2005; Greaver II, 1999), and increasing quality standards. According to Chamberland, D. (2003), drivers of outsourcing have been classified into three categories: organizational, improvement, financial and cost drivers as discussed below.

##### **❖ Organizational Drivers**

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging emerging technologies and achieving higher stakeholder value.

Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from noncore activities towards activities that provide a greater return in serving the customer. Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries Chamberland, D. (2003).

##### **❖ Improvement Drivers**

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with superior providers. Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement. An institution when realizes that its in-house skill-set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities Chamberland, D. (2003).

#### ❖ **Financial Drivers**

The objectives of this initiative are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology Chamberland, D. (2003).

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:-

(<https://www.flatworldsolutions.com/articles/top-ten-reasons-to-outsource.php>)

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>)

#### **2.1.5. Outsourcing Selection Criteria**

This section is mainly aimed at identifying the criteria that need to be considered in logistics outsourcing and try to review various literatures that will help to determine the main selection

criteria's. Deciding to use a third party LSP is a decision that depends on a variety of factors that differ from company to company. As Akman & Baynal, (2014) articulate on their research article the decision to outsource certain business functions will depend on the company's plans, future objectives, product lines, expansion, acquisitions, and so forth.

The authors also mentioned the measures indicating the success of logistics management summarized as cost reduction, maximized on time delivery, minimized lead times, rapid respond to the market, higher flexibility, increased number of solution alternatives, improved information reliability, faster communication, minimized rate of consumption, damage and loss, minimized number of total inventory through the supply chain, transformation of fixed costs into variable costs, increased efficiency and productivity in logistics activities, reduction of logistics management expenses, focus on core competencies, improved customer relations, customer focus, and creating win-win relationships in the supply chain.

On the other hand Dhayanidhi et. al (2005) mentioned the selection of third-party logistics service provider is a complex process involving various criteria, which are often in conflict with one another, such as price, quality, service, technology, etc. Thus, the selection of an efficient third-party logistics service provider to strengthen the relationship with LSP becomes a crucial decision (as cited in Aguezzoul, 2007,). Menon, Ginnis, & Ackerman, (1998), state that the firm's competitiveness strategy and its external environment affect the selection criteria. The important criteria for the selection of a third-party LSP are on time shipment and deliveries, superior error rates, financial stability, creative management, ability to deliver as promised, availability of top management, responsiveness to unforeseen occurrences, and meeting performance and quality requirements before price discussions occur.

According to Akman & Baynal, (2014), some frequently used criteria from literature are price, delivery performance, range of services provided, the ability of response, human resources, IT capability, speed and punctuality, finance status, past experiences, expertise technology, product reliability, reputation, the quality of service, market share, geographical location, and surge capacity (as cited in Chen & Wu,). Another study by Aghazadeh (2003), presents four relevant criteria for selecting an effective 3PL, which are: similar value, information technology systems, key management, and relationship. The various studies mentioned above clearly show that 3PL selection is multi-criteria. According to, Akman & Baynal, (2014) these criteria may be

influenced by several attributes such as: firm size, degree of 3PL usage, period of time 3PL have been used, and degree of current satisfaction with 3PL services (As cited in Menon, McGinnis, & Ackerman, 1997).

As observed from the above reviewed literatures of different authors, on time shipment & deliveries, rapid respond to the market, financial stability, quality of service improved customer relations, customer focus, and information technology systems are some of the major selection criteria's. As per Akman & Baynal, (2014) because of increasing importance of logistics outsourcing, selecting correct third-party LSP is a more critical issue for companies. Since the success of logistics outsourcing is highly influenced by the right selection of logistics outsourcing provider as also Wan et al. (2015) confirmed in their research paper.

Therefore, the selection of outsourcing partner become a strategic decision-making problem and must be considered really seriously. It might also influence, cost, customers response and firm's competitiveness in the global market. There are lots of factors affecting the decision to outsource service provider. Kremic, OI, & WO (2006) determined that among the factors to be considered when an organization contemplates on outsourcing decision are the relative costs of performing the function, how core is the function to the organization, long term strategy and the environmental factors. Assaf , Hassanain, Al-Hammad & Al-Nehmi (2011) further classified that factors influencing the decision to outsource can be classified under six main Influential factors and performance of logistics outsourcing categories-strategic, economic, management, technological, function characteristics and quality (Suhaiza Zailani et al, 2015).

#### **2.1.6 Outsourcing 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 mustface 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'thas 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.

### **2.1.7 Benefits of Outsourcing Activity Services**

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 several benefits associated to outsourcing which include time, expertise of resources, speed and financial benefits. (Kalinzi 2015).

### **2.1.8. Challenges of Logistics Activities**

Outsourcing leads to improvement in performance. According to Manono (2012), outsourcing is undertaken with the aim of improving a company's focus. Outsourcing is undertaken where there is world class capability. By outsourcing certain activities to a third party, resources which were used to render the services are freed for other purposes. Outsourcing certain key services to external organizations ensures that risk is shared between the outsourced company and the entity. There are several challenges bedeviling outsourcing certain functions to third parties. For example, outsourcing leads to loss of control over the operation of the organization.

Outsourcing also leads to dissatisfaction among clients. According to Sang (2010), outsourcing may lead to leakage of confidential information to competitors. By outsourcing certain business functions to an external service provider, human resource engaged to undertake that particular business function may be retrenched. Lastly, outsourcing may bring about high switching cost.

Kremic et al. (2006) also quoted Green (2000) in describing the lack of human resources as another strategic aspect that is considered in an outsourcing decision. Firms that face challenges with the need for skills and knowledge will be influenced to outsource their functions to gain world class capabilities from the logistics service providers. As stated by Kremic et al. (2006), there may be cases when the best alternative for an organization is to acquire the needed skills from outside sources. Green (2000) stressed that a function is more likely to be outsourced if there is a lack of internal human resources to perform it. There is a need to gain insight into the key factors that influence the adoption of logistics outsourcing so that others can learn from their experiences.

Like any restructuring exercise and management decision making in business, there are risks associated with outsourcing that procurement managers or top management need to consider carefully (Procurement News December 17th, 23rd 2003) and these may be The possibility of over depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive. Over a long time, a supplier of outsourced service may become complacent or change ownership and a risk of a fall in employ morale for fear of being made redundant, confidentiality links of company matters and in some instances loss of intellectual property rights. Eyaa, 2006, says that high prices being imposed on suppliers due to increasing trends in outsourcing, the demand for suppliers is so high and has pushed the rates being charged by the suppliers to be high. This later increases the costs, yet outsourcing is all about helping firms cut costs. Too much expectancy from suppliers as Company employees tend to expect too much from supplier firms as far as service provision is concerned because they are specialists, yet things can go wrong occasionally. Such issues should not be ignored. Manzi, 2005, according to him, there is a possibility that vital company information may be at a risk of being linked to the company's competitors which is dangerous since some suppliers may be spies to the company.

The factors influencing the outsourcing of logistics are the reason why firms engage with logistics service providers. Logistics service provider companies are responsible for the efficient and effective handling of a firm's goods and services with the aim of achieving best cost (Bourlakis and Melewar 2011). As suggested by Bourlakis and Melewar (2011), managing operations has become very challenging for most corporations considering the vast range of logistics functions, complexity of large range of products and involvement of large investment required for logistics operations. Potential Negative Outcomes of Outsourcing generally, and offshore outsourcing in particular, continues to be a key part of many companies' supply and cost management strategy. The strategy has proven to be effective but brings with it significant risks that must be recognized and managed. In outsourcing, a company is relying on someone else to run certain business functions. If not properly managed, companies may negatively affect their operations and customers.

For O'Keeffe and Vanlandingham (2004), some of the potential negative outcomes can include:

- ❖ On-time delivery performance and customer satisfaction levels may decline because of delays at third parties. This risk can be severely aggravated as product/service is outsourced. Delays can be caused by many factors that are outside the control of the outsourcing company. Examples include port/customs delays, labor disputes, weather, and political unrest. As lead-time and variability increase, so does the need for higher stock levels and other costly buffers, while overall supply chain confidence deteriorates.
- ❖ Product or service quality may also suffer in outsourcing, affecting customer satisfaction. Companies must carefully select, qualify, contract with, and manage their outsourcing partners to ensure that quality does not deteriorate. This often requires adequate transition periods and/or parallel production as well as effective cross-training between companies. These aspects are often neglected because of cost saving efforts.
- ❖ The outsourcing transition phase may also fail if schedules and budgets are not achieved because of insufficient planning and/or resources. An outsourcing project must be run with the same discipline and planning as a well-run large-scale systems implementation. Outsourcing is a replacement of production or service functions, and these functions have a direct bearing on the company's ability to meet its commitments to customers and shareholders.

- ❖ Suppliers may not be financially viable, thereby exposing the company to supply interruption risk. Surprisingly, effectiveness of the “financial viability” criterion scored lower than others in the survey, indicating that a significant number of companies could be at risk of supply interruption or related problems because of their suppliers’ lack of financial resources.

For Power, Desouza, Benufazi (2006), there are four risks that must be assessed and 10 common traps in outsourcing. The four risks include:

1. Strategic risks: strategic risks deal with issues of interaction between the organization and the proposed vendor. They may include compatibility of the vendor and the client strategies, issues of intellectual property, executives’ commitment, and capacity of both parties to handle the outsourcing. Power, Desouza, Benufazi (2006)

2. Operational risks: operational risks address the risk of managing the internal and external operational elements of the proposed outsourcing initiatives. Power, Desouza, Benufazi (2006)

3. Technology risks: the technology risk assessment identifies the organization’s technology support attributes. This assessment also exposes potential risks associated with the proposed outsourcing project technology and impact on both the client and vendor organizations. Power, Desouza, Benufazi (2006)

4. Financial risks: the financial risk assessment defines and baselines all internal costs and financial system maturity levels. It also identifies all financial risks associated with moving forward with the proposed outsourcing initiative. This can include the financial stability of both the client and potential vendor.

Power, Desouza, Benufazi (2006) the ten common traps of outsourcing include: Lack of management commitment, Minimal knowledge of outsourcing methodologies, Lack of an outsourcing communications plan, Failure to recognize outsourcing business risks Prepared by, Failure to tap into external sources of knowledge, Not dedicating the best and brightest internal resources, Rushing through the initiative, Not appreciating cultural differences, Minimizing what it will take to make the vendor productive, Poor relationship management programs

Power, Desouza, Benufazi (2006) further noted that outsourcing risks need to be managed. Using the list of risks, their probabilities of occurrence, and associated costs, organizations can

employ various options to manage risks. First, organizations must ask themselves how much risk they are willing to bear. Second, to manage risks organizations must identify risk mitigation strategies. These strategies or interventions need to be stated clearly in the outsourcing contract when entering into the agreement. Finally, a contingency plan or backup solution must be developed. For severe risk, that is risks that have a high probability of occurring and are costly if they occur, contingency plans must be in place. These plans should help organizations decide what actions need to be executed should these risks materialize.

On the other hand, 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 advantages 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 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.

### **2.1.9. Outsourcing of Distribution and Performance**

Transport management deals with modes of transport, transport infrastructure, geographical location, type of delivery, load planning, routing and scheduling. The primary function of Transportation is to move goods from one location to another (Rushton and Walker, 2007). Transportation is crucial throughout the management of the supply chain. Short lead time is essential for effective operations. Domestic and international transportation are the most outsourced in the supply chain. Organizations with limited need for transport should outsource their transportation to an outside organization, since transport service providers are simple to find and where the cost involved in transportation is quite low. This notwithstanding, (Klein, 2009), Rushton and Walker (2007) established that organizations which require transportation services for most of their activities are not required to outsource their transportation to outside organizations.

Outsourcing affects several dimensions of organizational performance, including innovation, quality, profitability, revenues, and efficiency (costs). We focus on organizational efficiency because the property rights and public choice theories have advanced that the privatization of public services will make public organizations more efficient (Boyne, 2002; Levin & Tadelis, 2010). Organizational efficiency is the ability of the organization to perform its activities at a lower cost. In service sectors, efficiency has been defined in terms of the cost of servicing customers (Weigelt & Sarkar, 2012). Efficiency can come from direct cost reductions, such as eliminating excess capacity; through innovation, such as new technologies that enable fewer resources to produce the same output; or through operational processes, such as those built through process codification, standardization, and formalization (Lawrence & Lorsch, 1967). By routinizing activities and setting procedures in place, the organization is able to efficiently allocate and utilize its resources.

There are numerous mechanisms through which outsourcing affects organizational efficiency. First, outsourcing can provide more immediate increased efficiency by reducing upfront investment costs. Outsourcing reduces the required investment in employees, expertise, and assets required to perform an activity (Bettis et al., 1992). This reduces the risks associated with

technological obsolescence, excess capacity, and exit barriers (Rothaermel et al., 2006). By using outside suppliers for products or services, an outsourcer is able to take advantage of emerging technology without investing significant amounts of capital in that technology. Second, outsourcing can be used as a means of reducing production costs (Quinn, 1999). Suppliers can have specialized expertise, capabilities, or scale advantages in the provision of services, which enables suppliers to provide the service at a lower cost (Quinn, 1992). Outsourcing spreads risks and can enhance organizational flexibility as organizations are able to switch suppliers to those that provide higher quality and cost-efficient goods and services (Quinn, 1992). Particularly in rapidly changing environments, outsourcing can reduce innovation and adaptation costs, allowing the organization to quickly respond to the local environment without getting locked into its existing technologies or strategies (Harrigan, 1985; Dess et al., 1995). From an administrative perspective, outsourcing can reduce bureaucratic costs. Bureaucratic costs are the costs of managing activities (Jones and Hill, 1988). Performing a large set of activities in house increases bureaucratic costs (Jones and Hill, 1988). Due to market competition, external suppliers are under pressure to keep bureaucratic costs from the coordination and administration of activities down. Finally, outsourcing can be used as a mechanism for benchmarking internal costs and to learn from third parties how to perform activities more efficiently (Dyer & Singh, 1998). From knowledge and information gained from outsourcing partners, the organization can implement new processes and procedures to increase efficiency.

Effective logistics services are a critical issue for firms' performance. Due to scarcity of resources, most firms are unable to efficiently allocate resources in areas of competition. Therefore, they must focus on core areas to concentrate their resources for them to gain competitive advantage (Gilley, McGee & Rasheed, 2004)). The outsourcing of non-strategic services allows the organization to concentrate on their core competencies, that is, on operations which have a high strategic value. Outsourcing of non-strategic services improves both the quality and the service by enabling the firm to cut on costs and enhance its competitiveness (Gilley & Rasheed, 2000).

Logistics outsourcing as a firm performance indicator presents itself in cost reduction, reduced lead-time, reliability and quality in service deliveries, where Logistics Service Providers (LSP)

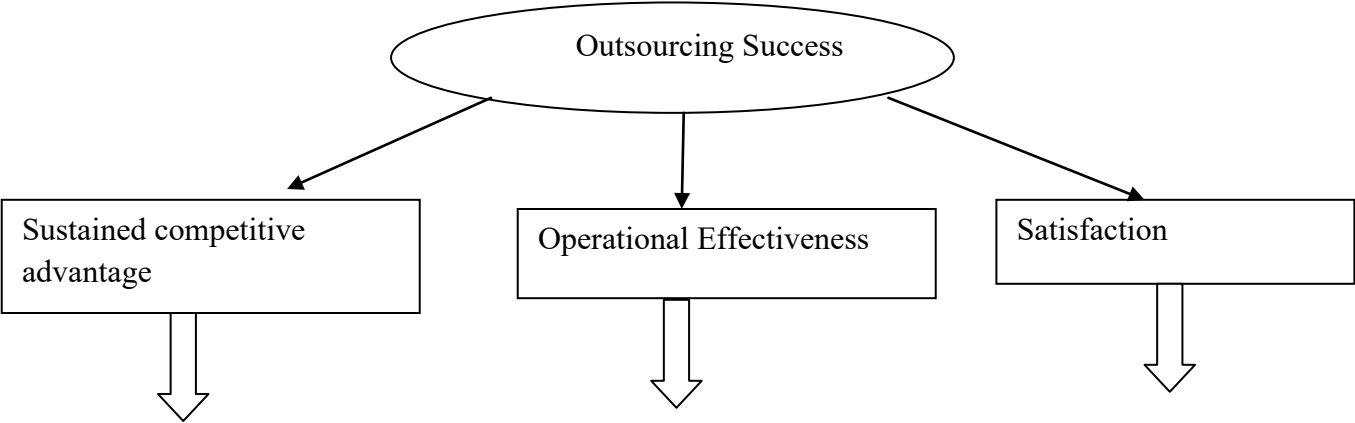
play a key role (Parashkevova, 2007; Lee & Song, 2015). Logistics as a functional system is crucial for enhancement in efficiency, in the flow of goods and information more so to meet low-cost, quick, and reliable delivery of firms' objectives within and throughout a network of companies. Logistics operations contributes to firm's performance when carried out efficiently and effectively. The company's supply chain capabilities and competences are based upon logistics activities and processes (Panayides, 2007).

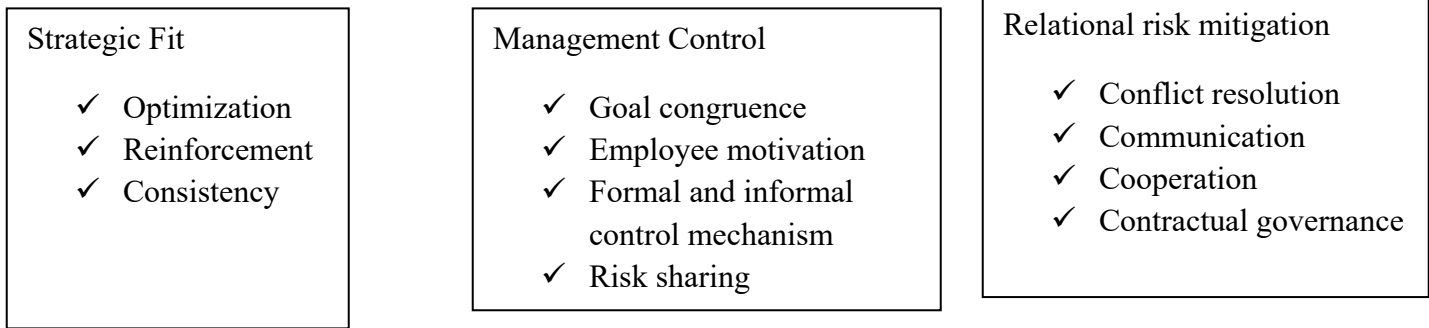
Although outsourcing has advantages, it also has disadvantages. Rothaermel et al. (2006) suggest that organizations trade off economizing (transaction costs) with learning. Outsourcing may erode a firm's long-run competitive advantage by reducing its control over activities, substituting innovation, and shifting knowledge to suppliers (Bettis et al., 1992). In summary, organization-level outsourcing strategies can influence firm performance. The benefits and costs of outsourcing strategies are not static, however. Over time, the choices made affect experience and learning, which in turn influence performance outcomes.

**2.1.10. Dimension of Outsourcing Success**

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). Therefore outsourcing has the following three dimensions of success.

Figure 1.1 The Three Dimensions of Outsourcing Success





Source:- Quirijn, Victor, Arian(2015).

## 2.2. Empirical Literature Review

A.kwansi A. (2012) conducted an empirical study on effect of outsourcing on organizational performance the case of selected financial institutions in Ghana. The study found that in the period of outsourcing the performance of the service providers is not measured for that most of the outsourcers do not have a built-in performance management mechanism. The coordination of in-house tasks and outsourced activities is not customary in most areas. The institutions mostly oversight and control what has been done by service providers or suppliers. In most cases no internal system is established in order to do things in a well-coordinated as well as in a professional manner. In outsourcing practice of the institutions, preparation and planning in outsourcing activities is not developed. In addition, no market survey is conducted to assess what the market provides.

The study conducted by Charity N. (2014) on the effect of strategic outsourcing on organizational performance a case study on Bid co Africa Limited indicated that even though the implementation process shows partially good results while in part it creates negative image for outsourcing. The achievement registered is cost saving in cleaning and security and ease of administrative burden. The complaint is high in terms of completion time, quality, customer satisfaction, integrity and deriving service assets utilization related to poor service level agreement, contracts administration and ethical problems of providers.

Sang (2010) examined outsourcing practices in Kenyan public universities to investigate the challenges and opportunities presented by outsourcing activities in the universities. The finding was that the universities involved in outsourcing had some general policy statements on

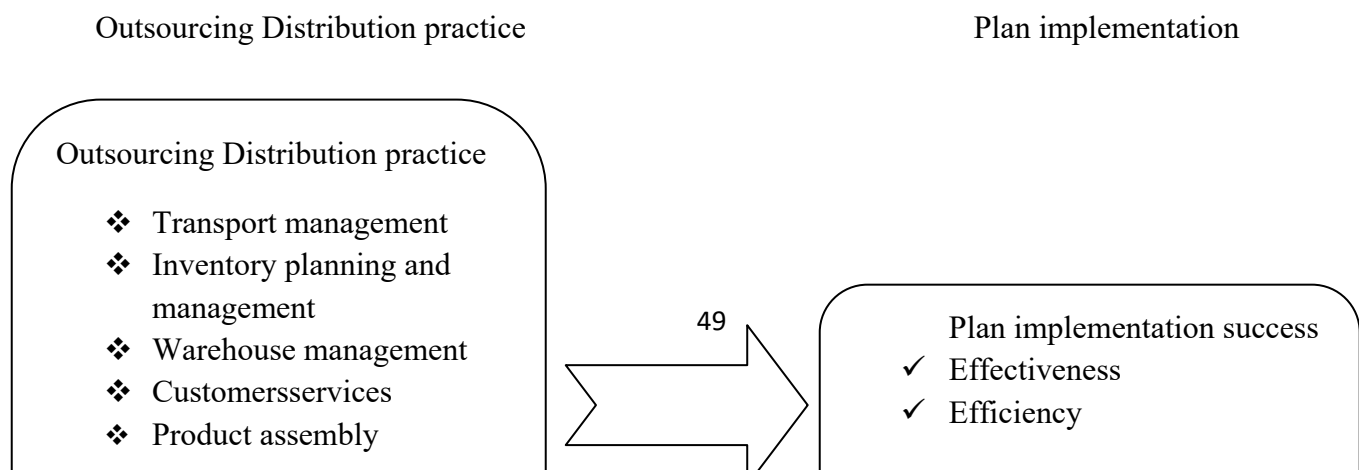
outsourcing but without known regulatory framework. He also identified Security and Cleaning as the major activities currently outsourced in public universities while the least outsourced activity was catering. The study established that outsourcing enables cost reduction and improves efficiency. The major challenges of outsourcing at public Universities included negative attitude of staff, poor monitoring and evaluation, non-cooperation by students to the outsourced and interference by community. The study affirmed that for a university to successfully outsource its functions, it requires proper evaluation and planning. Though the study by Sang (2010) enumerated challenges in Business process outsourcing at Public Universities, the findings cannot be replicated to other organization due to unique nature of every organization. The study was also based on a learning institution and not manufacturing organization.

According to research conducted by Meresa M. (2007) on outsourcing in Ethiopia revealed that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, Accounting and Administration outsourcing service providers will face great challenges from Ethiopian organization to deliver their services. This is mainly due to the organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

### 2.3. Conceptual Framework

The conceptual framework is a diagrammatic presentation of the independent variables: Transport management, Inventory planning and management, Warehouse management, Customersresponse, Transport activity, Product assembly and the dependent variable; distribution plan implementation performance.

Figure 2.1: Conceptual Framework



Source: Own computation.

## **CHAPTER THREE**

### **Research Methodology**

This chapter presents the research approach, methods and design used by the study, while highlighting the population and issues related to sampling technique, sample size determination, data collection instrument. Besides, the chapter outlines the approach to data collection and analysis for the purpose of answering research questions.

#### **3.1 Description of the study area**

Logistics outsourcing is the act of subcontracting logistics activities to firms equipped to provide the services (Lynch, 2004). Outsourcing is allocation of services that should be

performed inside the company or organization to external service providers and has become one of the essential factors in several business strategies. Distribution or Transportation is the function of ensuring that goods produced or acquired are transported from the point of production (from ATA) to the point of consumption (beneficiaries or farmers) efficiently, effectively and economically. Therefore, this research focused on the practices, drivers and challenges of distribution logistics outsourcing of Ethiopian Agricultural Transformation Agency.

### **3.2 Research Approach**

A mixed methods study refers to the collection or analysis of both quantitative and /or qualitative data in a single study (Creswell et al., 2003). To conduct this study a mixed methodology employed, combining qualitative and quantitative methods as the research approach. The qualitative approach overcomes limitations in the literature related to outsourcing practice of on distribution logistics. Then the quantitative approach will be used to identify the relationship between drivers of distribution logistics outsourcing and dimension of outsourcing success by assessing and identifying the effect of outsourcing on the ATA distribution plan implementation by validates results from the qualitative approach.

### **3.3 Research Design**

Descriptive and Explanatory design method will be employed in this study with the assumption that it can enable the researcher the assess the practices, drivers and challenges of distribution logistics outsourcing of Ethiopian Agricultural Transformation Agency. The purposed research was assessed the practice, identify the drivers and find out challenges of distribution outsourcing on distribution plan implementation of ATA success and to discover the relation relationship between outsourcing drivers and distribution dimension success. Research design is the blueprint for fulfilling research objectives and answering research questions. Research design is a procedure of data collection, analysis, interpretation and reporting the data in the research (Creswell, 2007). It is the plan and procedure for research to be conducted based on the nature of the research problem or purpose of the study which is addressed in the research. Therefore, when your purpose is to discover the relationship between variables and describe the characteristics descriptive research design is appropriate research method. The descriptive

design is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2002).

### **3.4 Population and Sampling**

#### **3.4.1 Population of the study**

According to William G.Zikmund, 2010, a population is any complete group that shares some set of characteristic. Target population is the intended group for the study. The target populations of the study were the high-level management, managers and coordinators of procurement and logistics, and employees of the Ethiopian Agricultural Transformation Agency at the head office and the branch offices in Amhara Region, Oromia Region, and Southern Nation Nationality Region that directly or indirectly involved in the distribution plan implementation. Therefore, the target population of this research refers to be 480 employees who are working in the ATA.

#### **3.4.2 Sampling techniques**

Sampling techniques is the technique in which respondents selected from the population. Sampling techniques can be classified into non- probability sampling and probability sampling techniques. Since our study is concerned with outsourcing of Ethiopian Agricultural Transformation Agency distribution plan implementation, the participants of the study are employees of the agency or organization. Therefore, non-probability sampling technique of convenience and judgmental sampling was employed. The judgmental sampling design was employed to interview data collection sample selection and convenience sampling method was employed for survey questioner distribution sample selection. The reason why the researcher prefers to use judgmental sampling method is because to collect comprehensive and reliable information from the sources having relevant knowledge and convenience sampling to select people that most conveniently available for economically and fastest way of getting questioner filled.

##### **3.4.2.1 Sampling Frame**

This research is on the practices; drivers and challenges of distribution logistics outsourcing of Ethiopian Agricultural Transformation Agency, since our target population are employees of the organization that currently working in head office at Addis Ababa and three regional branch offices. The study focused on the population who are currently working in the selected

departments of head office and regional branch offices that are accessible. Therefore, the sample frame is a population list from which the sample was drawn. Accordingly, our sampling frame includes Senior Directors, Directors and managers of procurement and logistics, and employees of the Ethiopian Agricultural Transformation Agency at the head office and the branch offices in Amhara Region, Oromia Region and Southern Nation Nationality. To make the study manageable, the sample was drawn from the head office and regional office employees 480 that work in 9 verticals each led by Senior Director. Five of these Verticals are located at Ethiopian ATA Headquarter in Addis Ababa, while the remaining four verticals are the ATA's Regional offices in Amhara, Oromia and SNNP because those departments have direct relationship with the distribution plan implementation. But with current security situation in Tigray the researcher can't get data from Tigray ATA.

#### **3.4.2.2 Sample Size**

Sampling is the process by which we select a few individual cases from a large population. Sampling addresses the questions "Who or what is in your study? Where are you getting your data or content?" typically, discussions of sampling center around. Who is in your study- the subjects, respondents, participants, or collaborators; however, in studies that involve the use of non-living data (e.g., contain analysis of text or images), it's a question of what is in your study? Therefore, a sample is the number of individual cases that we ultimately drawn and from which/whom we generate data. Accordingly for the qualitative face a total of 12 samples selected for interview that have direct relationship with the distribution plan based on our judgmental sampling. And from high level management, managers and coordinators of procurement and logistics, and employees of the Ethiopian Agricultural Transformation Agency at the head office and the branch offices in Amhara Region, Oromia Region and Southern Nation Nationality for our survey questioner 10% of our target population was selected. Kenya as Kothari (2004) expresses, a sample size between 10% and 20% is considered adequate for in-depth studies. Therefore, the sample size for this study was 10%. The number of these samples when put together is 60 that was 48 for questioners and 12 for interview. So, a total of 48 survey questioners are distributed to collect data from the four strata.

### **3.5 Sources of Data**

Both primary and secondary sources of data were used. As a primary data the researcher used both interview and questionnaires. An in-depth interview was conducted to the university facility management director and peace and security director, who are considered as contract administrator of both outsourced services and their ability to provide specific information on the actual performance of outsourcing providers and the respective obstacles involved. In addition to this data was collected by distributing structured questionnaires i.e., open-ended and closed-ended questionnaires to employees who have an exposure to outsourcing functions. The questionnaire a likert scale ranking (5-point likert scale) where 5 stands for strongly agree 4 stands for agree 3 stands for neutral 2 stands for disagree and 1 stand for strongly disagree.

Other essential secondary sources included in this study was include relevant books, academic journals, proceedings, books, articles contributed by deferent authors, internet-based information which contains relevant information related to the subject under the study. Policy documents and the like will also be consulted thoroughly.

### **3.6 Method of Data Collection**

For this research both primary and secondary data collection will be employed. The primary data will be collected using questionnaire and interview. The secondary data also will be collected from organizational report and different literatures related to research area. Therefore, in this research we will employ both data collection method that is primary data collection using interview and question and secondary data collection method from all necessary secondary documents. We collect data from region by phone conversation and by mail communication, but with current situation in Tigray we can't gate any data from Tigray.

#### **3.6.1. Procedures of Data Collection**

To gather the necessary data, a group of respondents was actively involved in the study and different data collection instruments was developed by the researcher based on the review of related literatures. Facilities Management Process, Human Resource management Process, procurement and property office, logistic team, and other important personnel in one hand is treated through questionnaire, interview and a group of different stakeholders is treated through focus group discussion. The rationale behind selecting such variety respondents is perhaps to consolidate the reliability of information

### **3.7 Data Analysis**

As stated by Duncan Cramer and Dennis Howitt (2004), descriptive data analysis emphasizes on maximizing the gain from the data by making clearer the process of describing and analyzing the data gathered. After proper editing, the data was coded and entered to the software then, ready to analysis. To achieving the objectives of the study, the collected data was processed and analyzed with descriptive statistics using Statistical Package for Social Studies (SPSS) of 28th version. This technique is selected because it helps to summarize the sample, provides, and allows describing the characteristics of the data collected and it helps to thoroughly analyze and interpret the questions one by one to reach meaningful results. Throughout the analyzing process, percentages, frequency, and mean were employed. In doing so tables and graphs will be used to present data in the way that easily understandable.

### **3.8 Validity**

Validity of research relates to how the author collects and analyzes the data. It includes the appropriate research strategy, the suitable techniques of relevant data collection and the way of analysis. So, to ensure validity of instruments, initially the instrument was prepared by the researcher with guidance from the advisor. The interview questionnaire and survey questioner were developed with due care. Therefore, to ensure validity of the items incorporated in the instrument first we made an interview with the management and higher-level officials that have direct participation in the contracting outsourcing and distribution plan implementation process and then we made question that have incorporated in our survey questioner. Accordingly, based on their comment the questionnaires were developed and commented by advisor and it was distributed to the sample population.

### **3.9 Reliability**

The reliability and validity show the accuracy and the correctness of the conclusion. The internal consistency of items incorporated in the instruments were checked by using Cronbach's Alpha. Mean of each variable was computed and then the reliability was checked based on the Means. Therefore, in order to check the reliability of the study or the internal consistency of the research Cronbach's Alpha test was conducted accordingly if the Cronbach's Alpha test meet the acceptable level, we found our research instruments are internal consistency and the result is reliable.

### **3.10 Ethical Consideration**

This study was followed all the ethical consideration that must be concerned during conducting research. And the interview was conducted, and questionnaires were distributed with full knowledge of the management. Ethical issues in this research concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using secured data for academic purpose only and ensuring that the respondent's personality was not exploited. Additionally, the confidentiality of the participants was ensured by their willingness and interest.

## **CHAPTER FOUR**

### **Result, Discussion, and Interpretation**

#### **4.1. Introduction**

This chapter deal with data presentation, analysis, and interpretation of data gathered through survey questionnaire, interview and secondary source of data together. To collect primary data

48 questionnaires were distributed for employee of the Ethiopian ATA and 12 interviews were made as discussed sample size. 100 percent of respondents were returned and participated in filling of the raised questionnaires and all interviews were done with respective prelisted Directors, Senior officers and Coordinators. Therefore, the result collected and gained from the response rate implies the rate is a best representative of the sample size and analyzed using statistical software SPSS (Version 28) and excel or Microsoft word.

#### 4.2 Demographic Profile of respondent

The study analyzed the background information of the respondents by using the following parameters: Gender, Qualification background, Study field, Position in the organization, and Work experience in the organization held by the respondents. Demographic data of respondents are presented and analyzed as show in the following tables.

Table 4.1. Demographic Profile of respondent

<b>Respondents Personal Background</b>		<b>N</b>	<b>%</b>
Gender	Male	38	79.17%
	Female	10	20.83%
	Total	48	<b>100.00%</b>
Qualification	Diploma	5	10.40%
	BA/BSC degree	22	45.80%
	MA/MSC	21	43.80%
	Total		<b>100.00%</b>
Year of experience in the organization	1 up to 3 Years	17	35.40%
	3 up to 5 Years	10	20.80%
	5 up to 7 Years	7	14.60%
	Above 7 Years	14	29.20%
	Total		<b>100.00%</b>
Field of Study	Agriculture	17	35.40%
	Business	25	52.10%

	Engineering	4	8.30%
	Other	2	4.20%
	<b>Total</b>		<b>100.00%</b>
Position in the organization	Officer	22	45.83%
	Senior Officer	11	22.92%
	Specialist	2	4.17%
	Coordinator	2	4.17%
	Director	4	8.33%
	Other	7	14.58%
	<b>Total</b>		<b>100.00%</b>

**Source: Research Data (2022)**

In the above table 4.1 the demographic profile of respondent showed that the as followed. Accordingly,

**The Qualification of the Respondent:** -The study examined the highest level of education of its respondents. The level of education of respondents under this study was important because it gave confidence that respondents understood the question and hence, provided reliability and reliance on the information provided. Table 4.1 illustrates the highest level of education attained by the respondent. Research data indicate most of (89.6%) of the respondents had a Degree and MA/MSc. And the remaining 10.4% were Diploma holders. This offered that the answers from respondents were reliable and that they can provide a true picture of the study concern in outsourced logistics function in the organization.

**Year of Experience of Respondents:** -The respondents were asked to indicate the duration they have continuously worked in the organization and the results are presented in table 4.1. The results in Table 4.1 show that 35.4% of the respondents had worked in their respective organizations for 1 to 3 years, 20.8% of the respondents indicated that they had worked in the organization for 3 to 5 years, 14.6% of the respondents indicated that they had worked in the organization for 5 to 7 years and 29.2% more than 7 years while 35.4 % of the respondents said they have worked in the organization for less than 3 years. The results indicates that majority (64.6%) of the respondents have worked in the organization for more than 3 years indication

that they understand the Reason, performance, benefits and challenges of outsourced logistics functions

**Respondent Field of Study:** Table 4.1 indicates that 17(35.4%) Agriculture, 25(52.1%) Business field, 4(8.3%) Engineering and 2(4.2%) other field qualified staffs are responded in this study. The obtained data imply that most of the respondents in ATA came from the Business fields study staffs.

**Respondents Position in organization:** The Practices, Drivers and challenges of outsourcing Distribution functions depends on user departments ones who saw the implementation of distribution plan of the ATA. Table 4.1 indicates that 22(45.8%) Officers, 11(22.9%) senior officer, 2(4.2%) Specialist, 2(4.2%) Coordinator, 4(8.3%) Directors and 7(14.6%) of other staff responded in this study. The obtained data imply that most of the respondents in ATA came from the officer staffs.

#### **4.3. Analysis, Discussion and interpretation on Assessment of outsourcing Distribution Practices, Drivers and Challenges**

The researcher was intended to indicate Assessment of outsourcing Distribution practices, Drivers and challenges of outsourced logistics Assessment of the organization using aspects in a five-point Likert scale i.e „strongly disagree“ (1) „disagree“ (2) „uncertain“ (3) „agree“ (4) and „strongly agree“ (5).

The scores of strongly disagree have been taken to represent a variable which had a mean score of 0 to 1.5, the scores of disagree have been taken to represent a variable with a mean score of 1.5 to 2.5, the score of uncertain have been taken to represent a variable which had a mean score of 2.5 to 3.0, the score of agree have been taken to represent a variable which had a mean score of 3.5 up to 4.5 and the score of strongly agree have been taken to represent a variable which had a mean score of above 4.5. A standard deviation of  $>0.9$  implies a significant difference on the impact of the variable among respondents.

##### **4.3.1 Assessment on Practices of Outsource Distribution Activities**

The respondents were asked to indicate the Practices of outsource its Distribution activity on transport management practice, inventory planning and management practices, warehouse

management practices, Customer’s Services Practices, and Customer’s Product assembly Practices. The level of their agreement was provided as follows.

### 1.3.1.1 Agreements with Various Transport Management Practices

To the respondents the following four question were provided and their level of agreement was provided based on the respondent response in the table 4.2 below.

Table 4.2. Agreements with Various Transport Management Practices

Transport Management	Frequency	%	N	Mean	Std. Deviation
EATA has ensured efficiency by outsourcing distribution or transport management to a third-party service provider.	Strongly Disagree	2.10%	48	3.65	1
	Disagree	10.40%			
	Uncertain	29.20%			
	Agree	37.50%			
	Strongly agree	20.80%			
Organization with lack of resources and capabilities may outsource transportation or distribution processes	Strongly Disagree	2.10%	48	3.64	1.072
	Disagree	14.60%			
	Uncertain	25.00%			
	Agree	35.40%			
	Strongly agree	22.90%			
ATA practice optimization has been accomplished for best conveyance hones	Strongly Disagree	2.10%	48	3.55	1.059
	Disagree	12.50%			
	Uncertain	37.50%			
	Agree	25.00%			
	Strongly agree	22.90%			
Fleet tracking tools have increased vehicle visibility on Distribution Implementation	Strongly Disagree	8.30%	48	3.06	1.051
	Disagree	18.80%			
	Uncertain	35.40%			
	Agree	31.30%			
	Strongly agree	6.30%			

**Source: Research Data (2022)**

As shown by Table 4.2. above, respondents were asked to choose their level of agreement on the extent of transport management outsourcing by using four questions as listed on the table above. From respondents on EATA has ensured efficiency by outsourcing distribution or

transport management to a third-party service provider the 37.5% agree and 20.8% strongly agree on the other hand 29.2% of the respondents were uncertain. On the contrary 10.4% disagree and 2.1% strongly disagree. Therefore, the respondent result was showed that 58.5% of the respondent agreed as transport outsourcing practice ensured ATA distribution outsourcing. the mean score for distribution outsourcing practice was 3.65 that means the mean score above 3.5 which means the respondents were agreed on the variable distribution or transport outsourcing. In this regard, the respondents opined that EATA has ensured efficiency by outsourcing distribution or transport management to a third-party service provider. Organization with lack of resources and capabilities may outsource transportation or distribution processes to large extent as shown by a mean score of 3.64 the 35.4% agree and 22.9% strongly agree on the other hand 25% of the respondents were uncertain. On the contrary 14.6% disagree and 2.1% strongly disagree. Therefore, the respondent result was showed that 58.3% of the respondent agreed as organization with lack of resources and capabilities outsource transportation or distribution processes. The mean score for distribution outsourcing practice due to lack of resources was 3.64 that means the mean score above 3.5 which means the respondents were agreed on the lack of resources are the practice of outsourcing transport or distribution outsourcing. So, ATA outsourced distribution and applied outsourcing transport as a practice due to lack of resources and capability.

In addition, ATA practice optimization has been accomplished for best conveyance hones extent as shown by a mean score of 3.55 with the respondent of 25% agree, 22.9 % strongly agree and 37.5% uncertain. On the contrary 10.4% disagree and 2.1% strongly disagree. This mean score of 3.55 were above 3.5 mean score therefore it showed that as respondents were agreed on ATA practice optimization has been accomplished for best conveyance hones. Lastly on the practice of transport outsourcing the Fleet tracking tools have increased vehicle visibility on Distribution Implementation to a moderate extent as shown by a mean score of 3.06. With 31.3% agree, 18.8% strongly agree, and 35.4% uncertain. And the remaining 18.8% and 8.3% were disagree and strongly disagree. The mean score of 3.06 indicates that as the respondent are uncertain. Which means the respondents are uncertain in Fleet tracking tools have increased vehicle visibility on Distribution Implementation.

#### **4.3.1.2 Agreements with Various Inventory planning and management Practices**

The other important Distribution plan implementation activity of ATA is inventory planning and management. Analysis of inventory planning and management was show in the following table.

Table 4.3. Agreements with Various Inventory planning and management Practices

Inventory planning and management	Frequency	%	N	Mean	Std. Deviation
Distributions of donated items are Properly delivered to Delivery point	Strongly Disagree	4%	48	3.35	1.12
	Disagree	21%			
	Uncertain	27%			
	Agree	31%			
	Strongly agree	17%			
Distributed Inventory accuracy has been delivered with specific identification with quantity	Strongly Disagree	6%	48	3.48	1.185
	Disagree	19%			
	Uncertain	15%			
	Agree	42%			
	Strongly agree	19%			
Good inventory managements/ proper space utilization practiced at the time of distribution of donated goods	Strongly Disagree	6%	48	3.23	1.036
	Disagree	13%			
	Uncertain	46%			
	Agree	23%			
	Strongly agree	13%			

**Source: Research Data (2022)**

According to the results depicted in Table 4.3 majority of the respondents agreed that Distributed Inventory accuracy has been delivered with specific identification with quantity to large extent as shown 42% agree, 19% strongly agree and 15% of the respondents of uncertain. On the contrary 19% disagree and 6% strongly disagree with a mean score of 3.48. The mean score of 3.48 means the level of agreement by the respondent are uncertain even though 61% of respondent agreed on distribution inventory accuracy.

Distributions of donated items are Properly delivered to Delivery point to large extent shown 31% agree, 17% strongly agree and 27% of the respondents of uncertain. On the contrary 21% disagree and 4% strongly disagree with a mean score of 3.35. Which indicated that the mean score 3.35 was less than 3.5 and their level of agreement were uncertain. So, their level of agreement indicates as donated items distributions are not delivered properly to the delivery or it can be delivered but their level of agreement are uncertain. And good inventory managements/ proper space utilization practiced at the time of distribution of donated goods to large extent as shown by a mean score of 3.23 with the agreement level of 23% agree and 13% strongly agree on the other hand 46% of the respondents were uncertain. On the contrary 13% disagree and 6% strongly disagree. Therefore, the respondent results were showed that 36% level of agreement and a mean score of 3.23 that means the response rate are uncertain. So, the respondent are not sure whether good inventory management or proper space utilization practiced at the time of distribution of donated goods.

#### 4.3.1.3. Agreements with Various Warehouse management

According to Frazelle (2002) the warehouse management is important to minimize the cost of labor, space, and equipment in the warehouse. The analysis of warehouse management was show in the following table.

Table 4.3.4 Agreements with Various Warehouse management Practices

Warehouse management	Frequency	%	N	Mean	S.D
Good warehouse keeping practices have been achieved by the ATA	Strongly Disagree	14.60%	48	3.13	1.248
	Disagree	12.50%			
	Uncertain	33.30%			
	Agree	25.00%			
	Strongly agree	14.60%			
Proper receipt procedures have been undertaken by ATA warehouse staffs	Strongly Disagree	4.20%	48	3.58	1.007
	Disagree	8.30%			
	Uncertain	29.20%			
	Agree	41.70%			
	Strongly agree	16.70%			
Less damages to commodities due to proper storage over the past years organizational	Strongly Disagree	6.30%	48	3.44	1.147
	Disagree	14.60%			
	Uncertain	27.10%			
	Agree	33.30%			

experience	Strongly agree	18.80%			
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**Source: Research Data (2022)**

As shown by Table 4.3. respondents presented their level of agreement based on the table. Regarding the Good warehouse keeping practices have been achieved the 25% agree and 14.6% strongly agree on the other hand 33.3% of the respondents were uncertain. On the contrary 14.6% disagree and 12.5% strongly disagree with the mean score of 3.13. Which means the respondents are uncertain on good warehouse keeping practices have been achieved. On the other hand, Proper receipt procedures have been undertaken by ATA warehouse staffs to large extent show by a mean score of 3.58 with the level of agreement of 41.7% agree and 16.7% strongly agree on the other hand 29.2% of the respondents were uncertain. On the contrary 8.3% disagree and 4.2% strongly disagree. The mean score of 3.58 were above 3.5 so the respondent agreed as Proper receipt procedures have been undertaken by ATA warehouse staffs. Regarding the good warehouse keeping practices have been achieved by the ATA to large extent as shown by a mean score of 3.13 with the level of agreement of 33.3% agree and 18.8% strongly agree on the other hand 27.1% of the respondents were uncertain. On the contrary 14.6% disagree and 6.3% strongly disagree. This indicated the respondent are uncertain whether good warehouse keeping practices have been achieved by the ATA.

**4.3.1.4. Agreements with Customer’s Services Practices**

The other important Distribution plan implementation activity of ATA is Customer’s Services Practices was show in the following table.

Table 4.3.4. Agreements with Various Customer Services Practices

Customer Services	Frequency	%	N	Mean	S.D
EATA's logistics distribution outsourcing helped customers be satisfied by responding to orders in a timely manner.	Strongly Disagree	2.10%	48	3.5	1.072
	Disagree	18.80%			
	Uncertain	25.00%			
	Agree	35.40%			
	Strongly agree	18.80%			
Increase flexibility on Transportation of donated goods	Strongly Disagree	8.30%	48	3.25	1.212
	Disagree	18.80%			
	Uncertain	31.30%			
	Agree	22.90%			
	Strongly agree	18.80%			

Value added services with services variety at the time of Distribution practices	Strongly Disagree	4.20%	48	3.33	0.93
	Disagree	12.50%			
	Uncertain	35.40%			
	Agree	41.70%			
	Strongly agree	6.30%			

**Source: Research Data (2022)**

As shown by Table 4.3.3 above, respondents were asked to choose their level of agreement on the extent of Customer services by using three questions as listed on the table above. In this regard, the respondents opined that EATA's logistics distribution outsourcing helped customers satisfied by responding to orders in a timely manner to a large extent as shown by a mean score of 3.50 and the agreement level of 35.4% agree and 18.8% strongly agree on the other hand 25% of the respondents were uncertain. On the contrary 18.8% disagree and 2.1% strongly disagree. The mean value of 3.51 showed that the customer was somewhat satisfied with agreed and uncertain level. The Value-added services with services variety at the time of Distribution practices to large extent as shown by a mean score of 3.33 while they indicated that Increase flexibility on Transportation of donated goods to a moderate extent as shown by a mean score of 3.25. both of this two showed that their mean are under uncertain level of agreement because its less than 3.5.

#### 4.3.1.5. Agreements with Customer's Product assembly Practices

Table 4.5 Agreements with Various Customer Product Assembly Practices

Product assembly	Frequency	%	N	Mean	S. D
Control damages on physical items during past three years Distribution experience	Strongly Disagree	2.10%	48	3.65	1.021
	Disagree	12.50%			
	Uncertain	25.00%			
	Agree	39.60%			
	Strongly agree	20.80%			
Deliver timely for the seek of periodical project implementation	Strongly Disagree	4.20%	48	3.83	1.098
	Disagree	12.50%			
	Uncertain	6.30%			
	Agree	50.00%			
	Strongly agree	27.10%			

**Source: Research Data (2022)**

As shown by Table 4.5 above, respondents were asked to choose their level of agreement on Product assembly by using two questions. On Deliver timely for the seek of periodical project implementation the 50% agree and 27.1% strongly agree on the other hand 6.3% of the respondents were uncertain. On the contrary 12.5% disagree and 4.2% strongly disagree with the mean score of 3.83. Therefore, the respondent results were showed that 77.1% of the respondent agreed as Deliver timely for the seek of periodical project implementation are very necessary and major. Which means the respondent agreed as timely implementation of project seeks timely delivery. On the other hand, control damages on physical items during past three years distribution experience to large extent as shown by a mean score of 3.65 with 39.6% agree and 20.8% strongly agree on the other hand 25% of the respondents were uncertain. On the contrary 12.5% disagree and 4.2% strongly disagree. This means the respondent agreed as control damages on physical items during past three years distribution experienced by ATA.

#### 4.4. Assessment on Drivers for Outsource Distribution

There are several reasons that drive ATA to Outsource of the Distribution activities. The list of reasons include to achieve a higher quantum of focus on core business and Cost saving. Table 4.6 Agreements with Various Drivers for Outsourcing distribution

Table 4.6. Agreement with various drivers of outsourcing distribution

Drivers for Outsourcing	Frequency	%	N	Mean	S.D
The organization-driven initiative is to achieve a higher quantum of focus on core business	Strongly Disagree	8.30%	48	3.48	1.072
	Disagree	10.40%			
	Uncertain	14.60%			
	Agree	58.30%			
	Strongly agree	8.30%			
The need to access outside expertise (which is not available in house)	Strongly Disagree	4.20%	48	3.23	0.951
	Disagree	14.60%			
	Uncertain	43.80%			
	Agree	29.20%			
	Strongly agree	8.30%			
To save manager's time and lead them to focus on strategies of the organization	Strongly Disagree	6.30%	48	3.44	1.09
	Disagree	16.70%			
	Uncertain	14.60%			
	Agree	52.10%			
	Strongly agree	10.40%			
To get Cost Savings Distribution advantage of the	Strongly Disagree	4.20%	48	3.56	0.965
	Disagree	12.50%			

organization	Uncertain	14.60%			
	Agree	60.40%			
	Strongly agree	8.30%			
Efficient utilization of Organizational Budget plan	Strongly Disagree	4.20%	48	3.72	1.155
	Disagree	12.50%			
	Uncertain	20.80%			
	Agree	33.30%			
	Strongly agree	29.20%			
ATA's transportation facilities are limited, it should outsource its distribution to a third party.	Strongly Disagree	10.40%	48	3.32	1.2
	Disagree	14.60%			
	Uncertain	18.80%			
	Agree	41.70%			
	Strongly agree	12.50%			

**Source: Research Data (2022)**

As shown by Table 4.6. above, respondents were asked to choose their level of agreement on the extent of Drivers of outsourcing. The level of agreement on the organization-driven initiative is to achieve a higher quantum of focus on core business were 58.3% agree and 8.3% strongly agree on the other hand 14.6% of the respondents were uncertain. On the contrary 10.4% disagree and 8.3% strongly disagree with the mean score of 3.48. Therefore, the respondent result was showed that 66.6% of the respondent agreed as the organization-driven initiative is to achieve a higher quantum of focus on core business with 3.48 mean score which means the respondent are uncertain.

The level of agreement on The need to access outside expertise (which is not available in house) were 29.2% agree and 8.3% strongly agree on the other hand 43.8% of the respondents were uncertain. On the contrary 14.6% disagree and 4.2% strongly disagree with the mean score of 3.23 score which means the respondent are uncertain. The level of agreement on To save manager's time and lead them to focus on strategies of the organization were 52.1% agree and 10.4% strongly agree. Which means 62.5% agreed with mean score of 3.44.

The level of agreement on Cost Savings Distribution advantage of the organization were 60.4% agree and 8.3% strongly agree on the other hand 14.6% of the respondents were uncertain. On the contrary 12.5% disagree and 4.2% strongly disagree with the mean score of 3.56. Therefore, the respondent result was showed that 68.7% of the respondent agreed as ATA achieved cost Savings advantage on distribution outsourcing. When the mean score was above 3.5 it shows

the respondent agreed on the variable this means the respondent were agreed as ATA saved cost through outsourcing distribution.

Regarding Efficient utilization of Organizational Budget plan, the respondent responded agree were 33.3%, strongly agree 29.2%, 20.8% uncertain, 12.5% disagree and 4.2 strongly disagree. The mean score of respondents for efficient utilization of budget the mean score was 3.72. The total respondent agreed were 62.5% agreed with the mean score of 3.72. This indicates that as the respondent agreed ATA had efficiently utilized its organizational budget by outsourcing distribution. the transportation facility are limited in ATA in response of respondents 41.7% agree, 12.5% strongly agree, 18.8% uncertain, disagree 16.6% and strongly disagree 10.4% respectively shows that the respondents agreement level and with uncertain mean score of 3.32.

### 4.3.3. Assessment on Challenges of outsourcing Distribution

The study also sought to establish the challenges faced in outsourcing logistics in ATA. The respondents were requested to indicate the extent of to which the various challenges were being experienced within ATA as a results of logistics outsourcing.

Table 4.7 Agreements with Various challenges of Outsourcing distribution

Challenges of outsourcing distribution	Frequency	%	N	Mean	S. D
loss of control over the operation of the organizational Distribution to project site	Strongly Disagree	6%	48	3.63	1.178
	disagree	13%			
	Uncertain	19%			
	Agree	38%			
	Strongly agree	25%			
losses over direct controlling of the day-to-day activities and performance of the outsourced services	Strongly Disagree	2%	48	3.52	1.052
	disagree	17%			
	Uncertain	27%			
	Agree	35%			
	Strongly agree	19%			
A high level of dalliance of Plan implementation of distribution plan	Strongly Disagree	2%	48	3.53	0.856
	disagree	10%			
	Uncertain	25%			
	Agree	54%			
	Strongly agree	6%			

Lack of security and flexibility of service providers	Strongly Disagree		48	3.44	0.897
	disagree	19%			
	Uncertain	27%			
	Agree	46%			
Poor information communication between the company with 3P (Suppliers).	Strongly Disagree		48	3.5	0.851
	disagree	13%			
	Uncertain	35%			
	Agree	42%			
Lack of skill and expertise of personnel in the outsourcing team	Strongly Disagree	10%	48	2.92	1.164
	disagree	31%			
	Uncertain	23%			
	Agree	27%			
	Strongly agree	8%			

**Source: Research Data (2022)**

As shown by Table 4.7 showed the respondent response regarding the challenges of outsourcing of distribution. respondents were asked to choose their level of agreement on the extent of loss of control over the operation of the organizational Distribution to project site listed 38% agree and 25% strongly agree on the other hand 19% of the respondents were uncertain. On the contrary 13% disagree and 6% strongly disagree. Therefore, the respondent result was uncertain with mean showed that 63% of the respondent agreed as loss of control over the operation of the organizational Distribution to project site with the mean score of 3.63. In this regard, the respondents agreed that EATA had ensured loss of control over the operation for outsourcing distribution to project site. Because the mean score is above 3.63.

losses over direct controlling of the day-to-day activities and performance of the outsourced services as shown by a mean score of 3.52 with the 35% agree and 19% strongly agree on the other hand 27% of the respondents were uncertain, 17% disagree and 2% strongly disagree. Therefore, the respondent result was showed that 54% of the respondent agreed as losses over direct controlling of the day-to-day activities with the mean score of 3.52.

In addition, A high level of dalliance of Plan implementation of distribution plan as shown by a mean score of 3.53 with the respondent of 54% agree, 6% strongly agree and 25% uncertain, On the contrary 10% disagree and 2% strongly disagree. This means score of 3.53 were above 3.5 mean score therefore it showed that as respondents were agreed on dalliance of Plan

implementation of distribution plan including Poor information communication between the company and Suppliers shows mean score of 3.5 with respondent of 42% strongly agree, 10% agree, 35% uncertain, 13% disagree it shows as respondents are agreed on poor communication between ATA and 3PI providers. lastly Lackof security and flexibility of service providers with 46% agree, 8% strongly agree, 27% uncertain, 19% disagree with mean of 3.44 and Lack of skill and expertise of personnel in the outsourcing team with 27%, 8%, 23%, 31% 10% strongly agree, agree, uncertain, disagree and strongly disagree respectively with the mean of 2.92. The mean score of below 3.5 indicates that as the respondent are uncertain. Which means the respondents are uncertain in both lack of security and lack skill in outsourcing.

#### 4.3.4. Assessment on Plan implementation of Distribution

Table 4.8 Agreements with Various distribution plan implementation

distribution plan implementation	Frequency	%	N	Mean	S.D
Timely Delivery of distributed items during last three years	Strongly Disagree	6%	48	2.98	1.158
	Disagree	38%			
	Uncertain	19%			
	Agree	27%			
	Strongly agree	10%			
Achieve organizational Distribution goal results timely implementation of Distribution plan	Strongly Disagree	17%	48	3.1	1.325
	Disagree	17%			
	Uncertain	21%			
	Agree	31%			
	Strongly agree	15%			
Timely implementation of distribution plan gains organizational performance in the past three years' experience	Strongly Disagree	19%	48	3.06	1.311
	Disagree	13%			
	Uncertain	25%			
	Agree	31%			
	Strongly agree	13%			
End-user pleasure because of a well-executed plan implementation is properly applied by ATA	Strongly Disagree	19%	48	3.06	1.311
	Disagree	13%			
	Uncertain	25%			
	Agree	31%			
	Strongly agree	13%			

**Source: Research Data (2022)**

As shown by Table 4.8. above, respondents were asked to choose their level of agreement on the extent of Timely Delivery of distributed items during last three years as listed on the table

above. From respondents 27% agree and 10% strongly agree,19% of the respondents were uncertain. On the contrary 38% disagree and 6% strongly disagree. Therefore, the respondent result was showed that 37% of the respondent was uncertain on Timely Delivery of distribution during last three years' experience of ATA. the mean score for timely delivery of distribution during last three years was 2.98 that means the mean score bellow 3.5 which means the respondents were uncertain on Timely Delivery of distribution during last three years' experience of ATA. In this regard, the respondents respond that of Achieve organizational Distribution goal results timely implementation of Distribution plan, Timely implementation of distribution plan gains organizational performance in the past three years' experience, End-user pleasure because of a well-executed plan implementation is properly applied by ATA to lower extent as shown by a mean score of 3.1 and 3.06 respectively with respondent percentage of the 31% agree,15% strongly agree, 21% uncertain, 17% disagree and 17% strongly disagree based on respondents reply related with Ata achieve Distribution goal results timely implementation of Distribution plan and the respondents were uncertain. On the contrary 31% agree, 13% strongly agree, 25% uncertain, 13%disagree and 19% strongly disagree. Therefore, the respondent result was showed that most of the respondent uncertain as both Timely plan implementation and end user pleasure. The mean score for both Timely plan implementation and end user pleasure was 3.06 that means the mean score bellow 3.5 which means the respondents were uncertain. So ATA should improve its plan implementation of distribution

#### **4.4 Analysis of interview question**

The data collected to conduct this study in addition to survey questioner was an interview. Accordingly, 12 interviews were made with EATA 12 interview participants. The interview was aimed to cross check the results from survey questioners by collecting the higher level of ATA officials' attitude towards outsourcing, the practice of outsourcing, drivers(reasons) of outsourcing and challenges the ATA faced for outsourcing of distribution plan implementation. The demographic profile of interview participant based on their position in the organization, and educational background they were 4(four) director, 5(five) senior officers and 3(three) coordinators. And their educational background showed 5(five) of them were MBA Degree holders and the remaining 7(seven) were BA Degree holders. Based on the research question

and objective four questions were provided and interviewed. So, their combined answer provided as follows.

The first question was, why Ethiopian Agricultural Transformation Agency outsource its logistics distribution or Transportation activity? (What is the main reason for outsourcing logistics distribution?). Their answers were: -

- ✚ Lack of resource (unavailability of truck)
- ✚ Core competence (to concentrate on core activity)
- ✚ Transaction cost (cost minimizing)
- ✚ Distributions are occasional.

According to the interview their concern confirmed that ATA outsource distribution implementation process due to lack of resource and budget utilization through cost minimization. And they also indicated as these services are not a day-to-day activity or the distribution services are occasional or seasonal, so the organization had to focus on its core activity. In addition, the second question was. What are the benefits that Ethiopian Agricultural Transformation Agency attains or gets by outsourcing its distribution plan implementation? And their answer was ATA attained benefit through sharing or transferring responsibility and risk related to distribution to 3PL (Logistics firm responsible to care expenses) and Cost Advantage. Therefore, this indicates that as ATA outsource its distribution plan implementation process aimed to attain benefits of outsourcing through reduction of cost and risk.

On the other hand, interview participants to the third question confirmed Ethiopian Agricultural Transformation Agency faced the following challenges due to outsourcing of its logistics distribution plan implementation.

- ✓ Loss on communication of end documents.
- ✓ Loss on management of drivers (possibility of inefficient management)
- ✓ Shortage of vehicles from third party (dependency on third party)
- ✓ Lack of technical capable trucks with 3PL transporters.
- ✓ May be loss on physical items.
- ✓ Damages on physical items (loss of control on third party logistic).
- ✓ Timely delivery dalliance.

- ✓ Missed information with delivery (information asymmetry)

Therefore, the combined answers of interview showed the ATA challenges faced due to outsourcing related to information asymmetry and possibility of inefficient management. Additionally for the researcher question four of what the major measurements of performance Ethiopian Agricultural Transformation Agency are used to measure the impact of outsourced distribution activity. They confirmed as timely and successfully deliverance of equipment's without any damage and transportation cost are the measurement of the ATA to ensure the budget utilization by attaining goal or plan implementation of ATA.

### Reliability test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.945	0.951	31

From the above table all variables are reliable as the alpha is greater than 0.7. Thus, it shows internal consistency of research instrument are very good reliable

### Reliability coefficients Separately

Variables	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Transport Management Reliability Statistics	0.803	0.804	4
Inventory Planning and management Reliability statistics	0.84	0.841	3
Warehouse management Reliability Statistics	0.592	0.625	3
Customers Services Reliability Statistics	0.79	0.796	3
Product assembly Reliability statistics	0.469	0.47	2
Drivers Reliability statistics	0.931	0.933	6
Challenges Reliability statistics	0.841	0.864	6
Distribution plan implementation Reliability statistics	0.906	0.902	4

## Regression

Formulating a regression analysis helps you predict the effects of the independent variable on the dependent one

Regression assumption

1. The variable is continuous
2. There is a linear relationship between independent and dependent variables.
3. There is no outlier in all variables.
4. There is no multicollinearity between independent variables.

Regression analysis and interpretation

To identify the effect of outsourcing on implementation of distribution plan first the following regression assumption were made.

Model Summary <sup>b</sup>									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.998 <sup>a</sup>	0.996	0.996	,07233	0.996	2850.18	4	43	0
a. Predictors: (Constant), Question 31, Question 28, Question 30, Question 29									
b. Dependent Variable: Distribution plan implementation									

The result of our regression model produced the goodness of the model (adjusted R-square) were 99.6%. This means 99.6% of the dependent variable are explained by the independent variable. Therefore, the model is good as shown on regression analysis table

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.645	4	14.911	2850.18	.000 <sup>b</sup>
	Residual	0.225	43	0.005		
	Total	59.87	47			
a. Dependent Variable: Distribution plan implementation						
b. Predictors: (Constant), Question 31, Question 28, Question 30, Question 29						

### Coefficients

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.07	0.032		2.165	0.036		
	Question 28	0.238	0.011	0.244	21.236	0	0.661	1.514
	Question 29	0.26	0.031	0.311	8.458	0	0.065	15.439
	Question 30	0.238	0.029	0.276	8.321	0	0.079	12.605
	Question 31	0.245	0.015	0.29	15.793	0	0.26	3.848
a. Dependent Variable: Distribution plan implementation								

## **CHAPTER FIVE**

### **Summary Of Findings, Conclusions and Recommendations**

#### **5.1. Introduction**

The primary purpose of this study is to assess the practice, Drivers and challenges of distribution outsourcing of Ethiopian Agricultural Transformation Agency-EATA. The study tried to examine EATA, that employ third party Distribution(logistics) service providers to execute and manage Distribution activities (such as, transport management, inventory management, warehouse management, Customer services and Product Assembly) on behalf of the organization. Conclusions and recommendation have been provided on the outsourcing Distribution Drivers and challenges of EATA.

#### **5.2. Summary of Findings**

##### **Findings on Practices of Outsource Distribution Activities - Transport Management**

Respondents indicated that EATA has ensured efficiency by outsourcing distribution or transport management to a third-party service provider has been achieved to a large extent. ATA practice optimization has been accomplished for best conveyance hones extent. Fleet tracking tools have increased vehicle visibility on Distribution Implementation to a moderate extent. Therefore EATA has ensured efficiency by outsourcing distribution or transport management to a third-party service provider. And ATA applied outsourcing transport as a practice due to lack of resources and capability.

##### **Findings on Inventory planning and management Practice**

Majority of the respondents agreed that Distributed Inventory accuracy has been delivered with specific identification with quantity to large extent as shown by 48 a mean score of 3.48, Distributions of donated items are Properly delivered to Delivery point to large extent and Good inventory managements/ proper space utilization practiced at the time of distribution of donated goods. Even though good inventory management or proper space utilization practiced at the time of distribution of donated goods the respondents were uncertain.

##### **Findings on Warehouse management Practices**

Proper receipt procedures have been undertaken by ATA warehouse staffs to large extent, there are Less damages to commodities due to proper storage and good warehouse keeping practices have been achieved by the Ethiopian-ATA.

### **Findings on Customer's Services practices**

Respondents indicated that EATA's logistics distribution outsourcing helped customers satisfied by responding to orders in a timely manner to a large extent as shown by a mean score of 3.50. Respondents also indicated that Increase flexibility on Transportation of donated goods helped them feel more satisfied with their service experience.

### **Findings on Product assembly practices**

Respondents were asked to choose their level of agreement on the extent of Product assembly by using two questions as listed on the table above. In this regard, respondents opined that Deliver timely for the seek of periodical project implementation to a large extent as shown by a mean score of 3.83.

### **Findings on Drivers for Outsource Distribution**

Most respondents replied that both focus to Efficient utilization of Organizational Budget plan are the most reasons show by a mean of 3.72, To get Cost Savings Distribution advantage of the organization is the second reason for ATA to make a decision on outsourcing distribution services to be delivered by the service providers as shown by a mean of 3.56, The organization-driven initiative is to achieve a higher quantum of focus on core business is the other reason for outsourcing distributions as shown by mean of 3.48, whereas To save manager's time and lead them to focus on strategies of the organization is another reason for outsourcing distribution as shown by mean of 3.44, However, according to. ATA's transportation facilities are limited, it should outsource its distribution to a third party (3.32) and but The need to access outside expertise with standard deviation of .951 implies there is a significant difference on reason, need to access outside expertise among respondents

### **Findings on Challenges of outsourcing Distribution**

From the findings in the results showed that challenges of outsourcing of distribution at Ethiopian ATA are loss of control over the operation of the organizational distribution to project site, A high level of dalliance of Plan implementation of distribution plan , losses over direct

controlling of the day-to-day activities and performance of the outsourced services, Poor information communication between the company with 3P (Suppliers), Lack of security and flexibility of service providers, Lack of skill and expertise of personnel in the outsourcing team with mean scores of 3.63, 3.53, 3.52, 3.5, 3.44 and 2.92 respectively. This shows most of the respondents were agreed on all the listed challenges faced on the implementation of outsourced distribution functions. Based on the result of interview questions held by the researcher, it is found that all the above observed challenges are faced in implementation of outsourced functions of the organization. The low variation of the standard deviation which is  $< 0.9$  indicates that respondents were consistent on the challenges faced by outsourced Distribution activity.

### **Findings on Plan implementation of Distribution**

ATA's distribution plan gains organizational performance and End-user pleasure because of a well-executed plan when properly applied by ATA. Timely Delivery of distributed items during last three years' experience of ATA (2.98) is the other implementation of outsourcing distribution activity by the Ethiopian-ATA

The finding from interview confirmed that ATA outsource distribution implementation process due to lack of resource and for cost minimization. Additionally, its due to distribution implementation services are not a day to day activity or the distribution services are occasional or seasonal therefore organization had to focus on its core activity outsource distribution implementation. On the other hand the benefits that Ethiopian Agricultural Transformation Agency attained by outsourcing its distribution plan implementation were sharing or transferring responsibility and risk related to distribution and cost advantage. The challenges faced due to outsourcing related to information asymmetry and possibility of inefficient management. And the major measurements of performance Ethiopian Agricultural Transformation Agency are used to measure the impact of outsourced distribution activity were timely and successfully deliverance of equipment's without any damage and transportation cost for ensuring the budget utilization by attaining goal or plan implementation of ATA.

### **5.3 Conclusion**

Outsourcing allows organization to focus their effort on its basic activity. Ethiopian-ATA also benefited in this aspect but in the Efficient utilization of Organizational Budget plan and to get Cost Savings Distribution advantage even though most of the respondents agree the organization is benefited in this aspect considering save manager's time and lead them to focus on strategies of the organization also included.

Based on result of interview questions conducted by the researcher to high level directors and officers, all agree that there is no written report regarding the performance of outsourced Distribution functions interns of cost.

Timely Delivery of distributed items during last three years' experience of ATA and Timely implementation of distribution plan gains organizational performance. In case of ATA there is End-user pleasure because of a well-executed plan implementation is properly applied by ATA good performance of delivery of service all interview respondents agree that no operation is interrupted due to late delivery of service. But late delivery of material is frequently seen especially in Beekeeping equipment's distribution. This might arise from uncertainty of 3p's limited transport resource availability.

As the result shows challenges of outsourcing of distribution at Ethiopian ATA are loss of control over the operation of the organizational distribution to project site, A high level of dalliance of Plan implementation of distribution plan, losses over direct controlling of the day-to-day activities and performance of the outsourced services.

The practice of outsourcing in ATA distribution implementation was due to lack of resource and cost reduction by focusing on day-to-day activity to attain core competence of the organization. On the other hand the benefits that Ethiopian Agricultural Transformation Agency attained by outsourcing its distribution plan implementation were sharing or transferring responsibility and risk related to distribution and cost advantage. The challenges faced by ATA due to outsourcing were related to information asymmetry and possibility of inefficient management. And the major measurements of performance Ethiopian Agricultural Transformation Agency are used to measure the impact of outsourced distribution activity were timely and successfully deliverance of equipment's without any damage and transportation cost for ensuring the budget utilization by attaining goal or plan implementation of ATA.

#### **5.4. Recommendation**

Effective information delivery with suppliers of services and products, maintenance of good supplier relations and performance measurement to determine whether the company meets targets is important to know the performance of the outsourced Distribution activity.

This would encourage the performance of the outsourced Distribution, it would enable the company to concentrate on the basic activity (core competence) and increase its competitiveness as highlighted by Parashkevova (2007), So since the amount of outsourced distribution activity in the company is huge there must be a performance measurement criteria and written report concerning cost. And high officials also suggest this recommendation. From the findings different challenges revealed and the researcher suggests the following recommendations as a solution based on each challenge.

##### **loss of control over the operation of the organizational Distribution to project site**

- ✓ The top management of the organization and expertise of procurement must prepare and manage the bidding agreements of distribution activities by adding some enforced rules and regulations

##### **losses over direct controlling of the day-to-day activities and performance of the outsourced services**

- ✓ The Outsourcing teams with Top level managements must work closely and strategically to control and manage distribution

##### **A high level of dalliance of Plan implementation of distribution plan**

- ✓ The top management must organize team for outsourcing activities and prepared outsourcing strategy, which is parallel with distribution plan,

##### **Lack of security and flexibility of service providers**

- ✓ To protect organizational assets and

##### **Poor information communication between the company with 3P (Suppliers).**

- ✓ A good communication system should be established between outsourcing team of the organization and 3Pl providers for smooth operation of outsourced distribution activity as well as the company operation.
- ✓ According to Rahman (2011), percentage of outsourcing shows increasing trend with logistics service providers,, efforts in their efficiency and productivity improvement through service integration and maximum utilization of information technology. So, Linking of computers at

different levels can be made through email communication or preferably through Wide Area Network

### **Lack of skill and expertise of personnel in the outsourcing team**

- ✓ Top management of the organization must facilitate trainings on skill development and form a team/committeewhich deeply responsible for Outsourcing of distributions

Therefore, Top managements must delegate the responsibilities of managing the service provider firm to the user department which are very close with outsourcing firms in the daily activities and make clear the roles and duties of both parties to the contract of outsourcing. Business organizations can increase their flexibility through a continuous redesign of their contracts that will allow them to meet their information needs at any given time. (Llopis, 2010). Daugherty et al., (1996) state that managers need a framework to make appropriate choices in terms of supplier relation

### **5.5 Ideas for Future Research**

This study can be used as a starting point for future researchers who are interested to work on the Distribution outsourcing

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## **APPENDICES**

### **APPENDIX A**

#### **Questionnaires**

This questionnaire is designed to conduct a Research on the topic “**Assessment of Outsourcing Distribution Practices, Drivers and Challenges** of EATA” as a partial fulfillment for MA degree in logistics and supply chain management. For the successful accomplishment of the study, your response has 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. 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

Thank you.

### Questionnaire Survey Questions

#### Part 1 Personal Information

1. Gender \_\_\_\_\_
2. What is your position in the organization \_\_\_\_\_
3. Year of experience in the organization?

- |  |   |
|--|---|
| A, 1 up to 3 <input type="checkbox"/> rs | C, 5 up to 7 <input type="checkbox"/> s |
| B, 3 up to 5 <input type="checkbox"/> rs | D, above 7 <input type="checkbox"/> s   |

4. Qualification?

- |                                     |   |
|-------------------------------------|---|
| A, Diploma <input type="checkbox"/> | C, BA/BSC Degree <input type="checkbox"/> |
| B, MA/MSc <input type="checkbox"/>  | D, Above <input type="checkbox"/>         |

5. Field of Study \_\_\_\_\_
6. Department \_\_\_\_\_

#### Part: Question on Assessment of Distribution Practices

Use the scale of: 5= strongly agree, 4= agree, 3= uncertain,2=disagree and 1= strongly disagree

Assessment of Distribution Practices	1	2	3	4	5
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<b>Transport management</b>					
EATA has ensured efficiency by outsourcing distribution or transport management to a third-party service provider.					
Organization with lack of resources and capabilities may outsource transportation or distribution processes					
ATA practice optimization has been accomplished for best conveyance routes					
Fleet tracking tools have increased vehicle visibility					
<b>Inventory planning and management</b>					
Distributions are Properly delivered to Delivery point					
Distributed Inventory accuracy has been delivered with specific identification					
Good inventory managements/ proper space utilization					
<b>Warehouse management</b>					
Good warehouse keeping practices have been achieved by the ATA					
Proper receipt procedures have been undertaken by ATA warehouse staffs					
Less damages to commodities due to proper storage					
<b>Customer's Services</b>					
EATA's logistics distribution outsourcing helped customers be satisfied by responding to orders in a timely manner.					

Increase flexibility					
Value added services and services variety					
<b>Product assembly</b>					
Control damages on physical items during past three years Distribution experience					
Deliver timely for the seek of project implementation					

Others, please specify

.....  
 .....

**Part : Question on Assessment of distribution outsourcing drivers**

Use the scale of: 5= strongly agree, 4= agree, 3= uncertain,2=disagree and 1= strongly disagree

<b>Assessment of Drivers for Outsourcing</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Distribution</b>					
the organization-driven initiative is to achieve a higher quantum of focus on core business					
The need to access outside expertise (which is not available in house)					
To save manager's time and lead them to focus on strategies of the organization					
To get Cost Savings					
Efficient utilization of company's asset					
ATA's transportation facilities are limited, it should outsource its distribution to a third party.					

Others, please specify.....

.....

**Part: Question on challenges of outsourcing distribution**

Use the scale of: 5= strongly agree, 4= agree, 3= uncertain,2=disagree and 1= strongly disagree

<b>Challenges of Outsourcing Distribution</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
loss of control over the operation of the organizational Distribution to project site					
losses direct controlling of the day-to-day activities and performance of the outsourced services					
A high level of dalliance of customer order delivery					
Lack of security and flexibility of service providers					
Poor information communication between the company and 3pls (Suppliers).					
Lack of skill and expertise of personnel in the outsourcing team					

Others, please specify.....

.....

**Part: Question regarding distribution plan implementation**

Use the scale of: 5= strongly agree, 4= agree, 3= uncertain,2=disagree and 1= strongly disagree

<b>Assessment of distribution plan implementation</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

Timely Delivery of distributed items during last three years					
Achieve organizational Distribution goal					
Timely implementation of the plan during last three years					
End-user pleasure because of a well-executed plan					

Others please specify.....

.....

**Appendixes**  
**Appendix B**  
**Interview Question**

A Guideline of Interview Conducted with Operation Director, Logistics Director, Procurement Director, Regional Directors, Coordinators, Senior Procurement officers and procurement Specialists of Ethiopian Agricultural Transformation Agency

1. Why Ethiopian Agricultural Transformation Agency outsource its logistics distribution or Transportation activity? (What is the main reason for outsourcing logistics distribution?)

.....

2. What are the benefits that Ethiopian Agricultural Transformation Agency attains or gets by outsourcing its logistics distribution plan implementation?

.....

3. What are the challenges faced by Ethiopian Agricultural Transformation Agency due to outsourcing of its logistics distribution plan implementation?

.....

4. What are the major measurements of performance Ethiopian Agricultural Transformation Agency use to measure the impact of outsourced logistics distribution activity?

.....

