



**Assessment of the Practice of Logistics Outsourcing to Third-
Party Logistics Service Providers: Case of Exporters in the
Leather Industry of Addis Ababa**

BY

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“Assessment on the Practice of Outsourcing Logistics to Third-Party Logistics Service Providers: Case of Exporters in the Leather Industry of Ethiopia”

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DECLARATION

I, the undersigned, hereby declare that the work which is being presented in this thesis entitled Assessment on the Practice of Outsourcing Logistics to Third-Party Logistics Service Providers: Case of Exporters in the Leather Industry of Ethiopia is original work of my own, has not been presented in any of other university and that all sources of material used for the thesis have been duly acknowledged.

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

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ABSTRACT

The purpose of this study is to assess the current logistics outsourcing practice of leather exporting firms with the aim of identifying the logistical challenges that impede competitiveness in the global market. These are export profit margins tend to be low, often extremely low or even inexistent and also complicated customs procedures and delays are also quoted as major export constraints and also customer complaints as a result of not deliver on time and encounter unnecessary cost because of lack of safety and insecurity. In this study descriptive type of research is applied and to get relevant information about the study both primary and secondary data were used. This research finding has shown the industry is facing some logistical challenges that would hinder the leather sector export competitiveness. To overcome outsourcing logistics challenges, outsourcing firms have to actively manage their relationship with the third party logistics service providers, empower the outsourcing team through training, set proper selection criteria, indicate the scope of the service in written contract and follow up.

Key Words: Logistics, Outsourcing, 3PLs, Leather Industry

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Abbreviations

3PL - Third Party Logistics

CSA - Central Statistics Agency

ECBP -Capacity Building Project

ELIA- Ethiopian Leather Industries Association

FDRE- Federal Democratic Republic of Ethiopia

GTP - Growth and Transformation Plan

IPR - Independent Procurement Report

IMF - International Monetary Fund

ISO - International Standard Organization

LIDI - Leather Industry Development Institute

LLPI-Leather and Leather Product Industry

LSP - Logistics Service Provider

OSP - Outsourced Service Providers

SPSS -Statistical Package for Social Science

UNIDO - United Nation Industrial Development Organization

CHAPTER ONE

1.1 Background of Study

The globalization, harder competition and the quick, dynamic and complex market of today (Bengtsson et al., 1998) are making it very hard to act as a single player and as an independent business entity. According to (Tsay 2014) because no organization can do everything itself, each one must choose a division of labour in every endeavour, defining its own roles and ceding any remaining duties to other parties. As defined by Rushton and Walker, (2007) outsourcing is 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 and also a third party logistics service provider is commonly used as the term to describe an external provider who manages outsourced activities on behalf of the shippers or customers whose business processes they support. Logistics outsourcing practices include: outbound transportation, warehousing, inbound transportation, freight bill auditing/payment, customs brokerage, freight forwarding and customs clearance.

In the country GTP document, the leather and leather products industry is one of the priority industries that are expected to contribute considerably to export diversification and foreign exchange earnings through greater value addition and productivity improvement (FDRE, 2010). Considering the export activities of the country, the industry is the fifth largest foreign exchange earner in Ethiopia, earning about 8% of foreign exchange in the year 2006-2007. More importantly, the leather industry comes as the leading exporter, within the manufacturing sector, accounting for, on average, up to 67% of the total manufacturing export.

However, in spite of the fact that the Ethiopian leather industry seems to try to produce and export leather and leather products, the industry lacks competitiveness both in the domestic and international markets, makes it a sluggish and non-innovative industry (Abdurehaman, 2012). Based on the news article published on the Ethiopian herald by Dibaba, there are also various bottlenecks that prevent the sector from playing its role in the development of the national economy. Lack of competitiveness regarding efficiency, inputs, technology, and product design, specifically in leather and textile products, management, training, high overhead costs as well as inability to produce export standard commodities that meet the requirements of ISO 9000 and ISO1400 are some of the challenges of the export sector that are to be resolved effectively (Dibaba, 2015).

Moreover, absence of export marketing skills and limited managerial and technical capabilities in the private business sector, low market promotion schemes; lack of trained manpower on international marketing intelligence. The challenges that Ethiopia faces in developing its export sector are certainly not limited to the above mentioned issues. One can mention several issues related to packaging, logistics and inefficiencies in processing the products. Also it observed that leather exporting firms that outsource their logistics service face problems like delay of time, customer complaints as a result of not deliver on time and encounter unnecessary cost because of lack of safety and insecurity.

In Ethiopia very few researches are conducted in the area of logistics and none of these researches are directly related to the practice of outsourcing logistics to third party logistics service providers in leather industry. Therefore, this study will assess the current outsourcing practices of organization that manufacture and export leather products and the challenges they face which impede the companies not to be competitive in the global market, improve customer satisfaction, lower their cost and gain greater profit. It also needs to fill the knowledge gap that occur in third party logistics service users by reviewing different literatures and assessing the best practice and found solution for the problems.

1.2 Statement of the problem

Logistics has always been a central and essential feature of all economic activity (Christopher, 1986). Firth *et al* (1980), Suggested that logistics generally account for 15 to 20 percent of costs. According to IMF Country Report No. 14/304 Ethiopia's poor logistics raise costs for local industries and hamper the country's competitiveness in the global market. Inefficient logistics not only impede Ethiopia's exports potential, they also increase the costs for consumers for imported goods. Improving trade logistics are thus very important for making Ethiopia's export sector globally competitive. Also, Ethiopia is a landlocked country and trade and border logistics are critical for it to develop a thriving and diverse export sector. According to Ethiopian business landscape precise insights (2013) report high administrative costs of trade and poor trade logistics, making it difficult for manufactures to penetrate export markets as a springboard to developing capabilities and "learning by exporting" and comparative disadvantage in manufacturing.

The worldwide trend in globalization has led many companies to outsource their logistics function to Third Party Logistics (3PL) companies, so as to focus on their core competencies and gain competitive advantage over their competitors (Cheong, 2004). Logistics activities that are outsourced by leather manufacturing firms include: outbound transportation, warehousing, inbound transportation, freight bill auditing/payment, customs brokerage, freight forwarding and customs clearance. Many of the reasons for outsourcing cited in literature are related to decreased costs and increased customer services, which are often related to improving management focus, enabled by outsourcing, enhancing speed to market and increasing revenue (Burns *et al.*, 2001). According to Konezny & Beskow (1999) outsourcing is an important means to improving logistics efficiency overall.

Outsourcing also has a significant effect on both transport cost and customer satisfaction. This helps the manufacturing company to effectively perform in a competitive market. However, Brandes *et al.*, (1997) propose that the improper use of outsourcing could play an important role in the competitive decline of firms. As Ethiopia becomes increasingly involved in the global economy; local manufacturers are being exposed to increasing pressure to be more competitive. Manufacturers, thus driven by the need to conform to world standards and contain costs, can consider the outsourcing of their logistics requirements; Cited from (Barthelemy, 2003).

However, in order to reap the potential benefits of logistics efficiency through outsourcing, it is critical that the process is executed properly and with diligence (Kujawa, 2004). Waugh and Luke (2011) in their research on logistics outsourcing by manufacturers in South Africa show that if outsourcing is not practiced in the right manner service levels are not met and increase in costs will be occurred. Thus, these will increase the logistics costs and reduce company's competitiveness in the global market.

Ethiopian leather products have been exported to markets globally and the Ethiopian leather industry is one of the leading generators of foreign currency in the country and an important creator of jobs. As stated in World Bank Website Ethiopia has even greater potential in leather, which is more labour intensive than apparel. However, a study conducted under the Engineering Capacity Building Project (ECBP) has scrutinized the constraints of the Leather and Leather Products Industry (LLPI) and the main constraints based on shoe manufacturers report that their bargaining power is pretty low due to heavy competition (as cited in UNIDO Independent Evaluation Report , 2012).

As a result, export profit margins tend to be low, often extremely low or even inexistent and also complicated customs procedures and delays are also quoted as major export constraints. One can mention several issues related to packaging, logistics and inefficiencies in processing the products. In addition to the above stated challenges it is also observed that leather exporting firms that outsource their logistics service face problems like delay in delivery time, customer complaints as a result of not deliver on time and encounter unnecessary cost because of lack of safety and insecurity. Sisay stated that as part of plans to grow its share of Ethiopian leather shoes on the global market, the government will also need to address key challenges facing the sector including power shortages, logistics and contrabands.

1.3 Research Questions

This study will try to answer the following questions:

- What logistics outsourcing practices are employed by leather exporting firms?
- What are the challenges of logistics outsourcing practice?
- How the challenges of logistics outsourcing practice affects leather exporting firm's competitiveness global market?

1.4 Objective of the Study

1.4.1 General Objective

The overall objective of the research is to assess the current logistics outsourcing practice of leather exporting firms with the aim of identifying the logistical challenges that impede competitiveness in the global market.

1.4.2 Specific Objective

The specific objectives are to:-

- Review the practice outsourcing of logistics activities (warehousing; transportation; custom clearing and forwarding) in leather industry i.e. exporters.
- Examine the criteria's of logistics outsourcing.
- Identify the reasons and benefits of logistics outsourcing practice.
- Identify the challenges in logistics outsourcing practice.

1.5 Significance of the study

The study expected to have a contribution for exporters in leather industry to improve their logistics outsourcing practice through providing a solution for discovered problems and improve their competitiveness in the global market and this thesis can initiate other researcher's to make further study on outsourcing logistics practice of various industries. Generally, the finding and the recommendation of the study may help in decision making of logistics outsourcing firms in leather industry by understanding the existing problem to improve or fill the gap.

1.6 Scope of the study

The geographical location of the study is delimited to Addis Ababa, Ethiopia. Specifically the study has been undergone on leather manufacturing firms that outsource their logistics service.

1.7 Limitation of the study

This study was conducted on leather manufacturing firms that export and outsource their logistics service but the research did not include those who did not export and outsource. The geographical coverage of the study was on leather manufacturing firms operating in Addis Ababa. Therefore, did not cover the entire country and the region as a whole. The other limitation is lack of previous researches and written documents specifically in Ethiopia context.

1.8 Organization of the study

This study is organized as follows: Chapter One: Introduction- it looks at the major highlights of the study. It gives the background of the study, statement of the problem, research objective, research questions, and delimitations, significance of the study as well as organization of the study. Chapter Two: Literature review- Focuses on extensive literature review from published books, journals, the internet sources. Chapter Three: Research methodology- this deals with data collection, presentation of research findings, analysis and interpretation of data. The following research tools will be used; questionnaires, interviews, secondary data review and the internet. Chapter Four: Data presentation, Analysis and Discussion - It focuses at the findings of the research and provides a summary of the study findings and the accompanying discussion of the research findings. Basically focuses on the results and discussions. Chapter Five: Summary, Conclusions and Recommendations- Provide major conclusions drawn from the study and gives recommendations to the findings in chapter four. It also looks at possible areas for further research.

CHAPTER TWO: LITERATURE REVIEW

Introduction

This chapter reviews various literatures on the major issues related to the practice of outsourcing logistics service which incorporates, the evolution of third-party Logistics, definition of logistics, outsourcing & third party logistics service providers, the practice, process, reasons, benefits, challenges/risk/ disadvantage of outsourcing from the theoretical, a brief description about leather industry in Ethiopia, also review empirical studies in the research area and develop a theoretical framework.

2.1 Theoretical Review

2.1.1 Evolution of Third-party Logistics

The third-party logistics industry evolved in the 1970's during a time of expanding globalization and an increased use of information technology (Song, and Regan, 2001). These trends resulted in increased demands on firms, and possibilities for companies to operate more competitively in the marketplace. The first generation 3PL's (1970's-1980's) offered services such as transportation, brokerage, and shipping. Second generation 3PL's (1980-1990) was mostly asset or non-asset based companies with increased service offerings. The third generation 3PL's (2000 onwards) was mostly web-based 3PL's with increased supply chain integration. (Dhayanidhi, Azad & Narashiman, 2011)

2.1.2 Outsourcing and Third Party Logistics

Rushton and Walker, (2007) defined Logistics as the process of planning, implementing and managing the movement and storage of raw materials, work-in-progress inventory, finished goods and the associated information from the point of origin to the point of consumption. Now a day's lots of manufacturing companies are competing both in the local and global market by reducing cost of production which enable them to selling their products lower price compared to their competitors and by using product differentiation or both. According to Firth *et al* (1980), logistics generally account for 15 to 20 percent of costs. Panayides *et al.* (2007) emphasized that, logistics is a functional system which is crucial for improving efficiency, both in the flow of goods and information and to meet low-cost, fast, and reliable delivery objectives within a company and throughout a network of companies. Logistics significantly contributes to company's competitive advantage in both efficiency and effectiveness.

Thus, if companies are incapable to perform the logistics part in competent manner it is better to outsource their part or all logistics activities to logistics service providers, because they have the knowledge and experience. Various authors define outsourcing logistics and third party logistics providers from different perspectives and will be discussed hereunder;

2.1.2.1 Definitions of Outsourcing Logistics

Rushton and Walker, (2007) defined outsourcing 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. Outsourcing logistics functions to third-party logistics (3PL) providers has been a source of competitive advantage for most companies. Companies cite greater flexibility, operational efficiency, improved customer service levels, and a better focus on their core businesses as part of the advantages of engaging the services of 3PL providers.

On the other hand Waters, (2010) describe outsourcing as a deliberate movement of a series of connected business processes to a third party who manages them on behalf of the company. The classic processes were IT, warehousing and distribution, facilities management, and payroll, and to these can now be added: call centers, manufacturing, and web-development, home shopping, credit cards, and even merchandising and design. In these movements the commercial risk and assets are usually passed to the outsourcing company.

Outsourcing is receiving increased attention worldwide as a method by which organisations can lower costs and improve the service provided to customers, and consequently increase their competitive advantage and profitability (Villiers, Nieman & Niemann, 2011). More and more managers are therefore faced with the question “which part of our activities should we perform internally, and which should we source externally?”

2.1.2.2 Definitions of Third-party logistics

Rushton & Walker, (2007) third-party logistics can be defined as the management of outsourced logistics, transportation and distribution activities. 3PL is commonly used as the term to describe an external provider who manages outsourced activities on behalf of the shippers or customers whose business processes they support. 3PL services typically include: outbound transportation, warehousing, inbound transportation, freight bill auditing/payment, customs brokerage, freight forwarding and customs clearance.

Soodyall & A. M. Singh conducted a theoretical review on outsourcing the logistics function articulate that third-party logistics (3PL) are supplied by outsourced service providers (OSPs), which can be defined as organisations that provide multiple logistics services that were previously provided in-house for use by customers (as cited in Gattorna, 2010).

These services are usually integrated or bundled together by the service provider. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding (as cited in Langley, Albright, Wereldsma, 2009). Third party logistics involves the use of external companies to perform some or all of the firm's logistics activities. A key rationale for such outsourcing is that with intensified global competition, firms are concentrating their energies on core activities that are critical to survival, and leaving the rest to specialist firms (Bhatnagar *et al*, 1999).

2.1.3 Reason for outsourcing logistics service

In this section, overview of previous academic works on outsourcing is given and is aimed to identify reasons for outsourcing. Outsourcing is driven by a number of factors such as cost, the need to focus on core activities, and the desire for improved service levels and increased innovation (Elmuti, 2003). Scientists have identified many reasons for the proliferation of contract logistics and the increasing popularity among many business practitioners. The most cited reasons for contract logistics are cost reduction and service improvement.

According to Rushton & Walker, (2007) the major drivers of outsourcing logistics have been split into different categories as: **Organizational**; implies to focus on their core business or core competence and access a wider knowledge, **Financial**; to free up resource to benefit from cost savings through economies of scale and capital, **Service**; to obtain a number of value-added services & offer greater flexibility and **Physical** to gain benefit from third party logistics providers special skills, capabilities and resources. On the other hand Donald Waters, (2010) classify the reasons for outsourcing logistics in to five groups: financial, technology, managerial, resource management and personal.

Akili (2011) state that logistic decisions of the firm are driven and justified by a various factors including, among others, the need to achieve operational flexibility, customer service, risk mitigation, cost reductions, operational efficiency and access to resources and markets. It is argued that out of these many factors, cost reduction and expectation to improve services are the most frequently cited factors for outsourcing (as cited in Mello, Stank, & Esper, 2008). Furthermore, Wilding & Juriado (2004) attempt to rank the reasons of outsourcing by using a scoring model. Based on their model, they placed the following reasons into an order: (1) reduce costs, (2) improvement of service levels, (3) increase in operational flexibility (4) focusing on core competencies and (5) improvement of asset utilization.

Hill (2007) mentioned that all evidence indicates that globalization and outsourcing has been increasing and will continue with the same trend in future. Many firms and multinational corporations are responding to this trend in an efficient manner to changing conditions in their operating environment. Globalization and outsourcing are changing the world economy into more integrated and dynamic enterprise which will result in healthy competition, increased efficiency and more jobs. The overall trend of the major reasons for organizations outsource their logistics service are due to the need for cost reduction, service improvement, to focus on their core business, greater flexibility, risk mitigation, operational efficiency and access to resources and markets. These will result in healthy competition, increased efficiency and more jobs.

2.1.4 Logistics Outsourcing Practice

Lieb, (1992) The function performed by the third party can encompass the entire logistics process or selected activities within that process. Zailani, Shaharudin, Razmi & Iranmanesh (2014) stated that transportation, packaging, warehousing, inventory management, information system and custom formalities as among the logistics outsourcing practices. On the other hand, Razzaque & Sheng (1998) listed transportation, distribution, warehousing, inventory management, order processing and material handling as logistics outsourcing functions in their investigation, cited from Setthakaset & Basnet, (2005). Some of the outsourced logistics activities are reviewed from various literatures here under:

1.1 Freight Forwarding: - According to Rushton and Walker, 2007 freight forwarding may be defined as the secure and efficient movement of goods on behalf of an exporter or importer, commonly known as the shipper. It might use the services of shipping lines, airlines or road and rail freight providers, or in some cases the freight forwarding company itself provides the service.

1.2 Inventory Planning & Management: - 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).

1.3 Warehousing Service:- 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).

1.4 Customer Response: - 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 response 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)).

1.5 Transportation service or freight transport service: - 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.

1.6 Product assembly/Packing/labelling: - 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 (Brat & Raghu 2012).

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 The Process of Selection of Logistics Service Providers

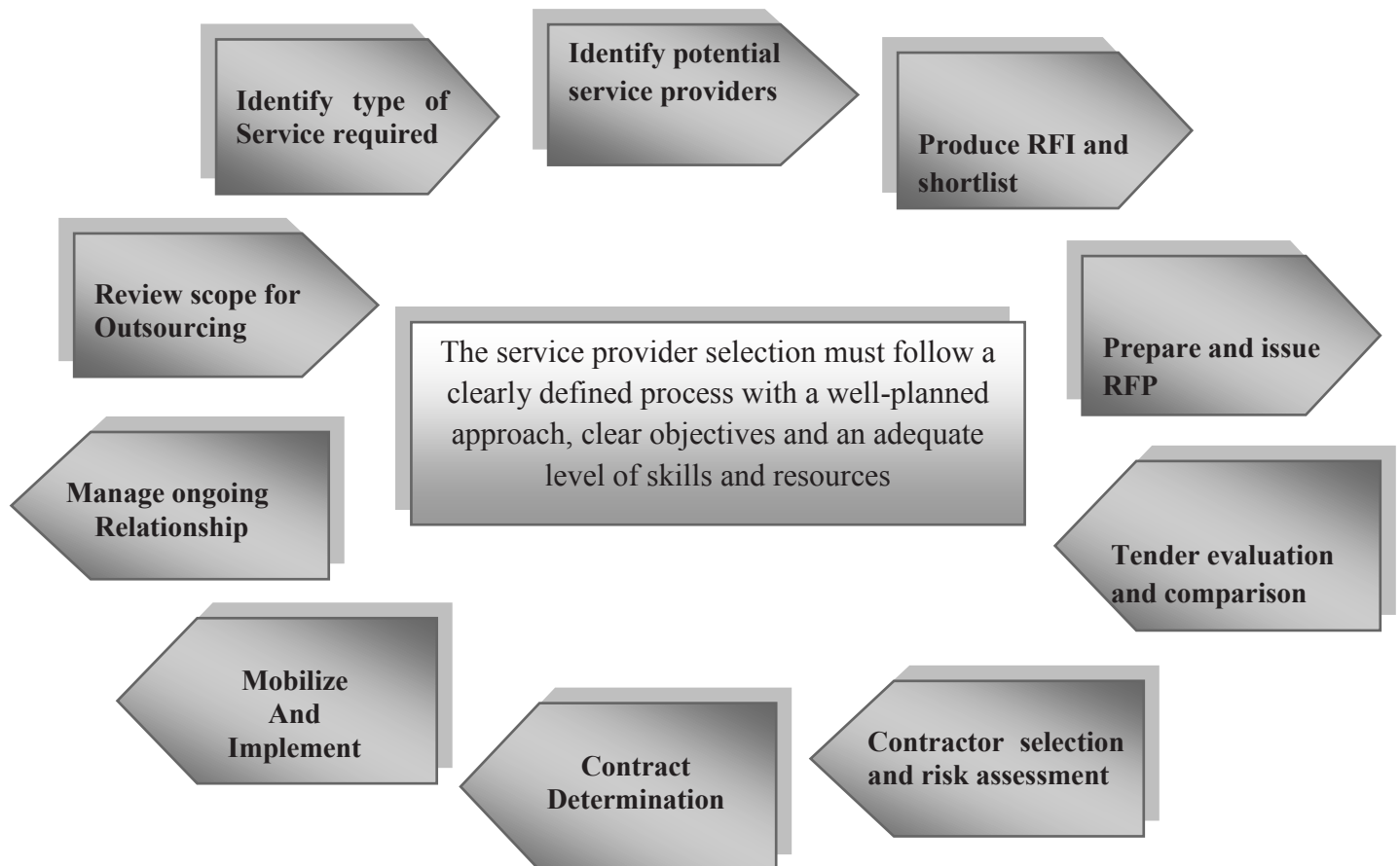


Figure 2.1 Process of Outsourcing

Source; International Logistics and Supply Chain Outsourcing Book (Rushton and Walker, 2007),

The practices, processes and issues involved in logistics outsourcing should thus be identified, defined well and dealt with in order to avoid unnecessary mistakes and outsourcing failure and to ensure high levels of satisfaction (Waugh & Luke, 2011).

2.1.7 Benefits of logistics outsourcing Logistics

As stated in a research on the outsourcing of logistical activities: the case of Guinness Ghana breweries limited conducted by Thywill & Dzogbewu, (2010) across many industries, outsourcing logistics activities has become a rapidly expanding source of competitive advantage and logistics cost saving. He reported that some firms routinely have achieved 30 – 40 % reduction in logistics costs and have been able to greatly streamlined global logistics processes as a consequence of outsourcing. Logistics significantly contributes to company's competitive advantage (as cited in Lieb, R.C., Bentz & B.A., 2004). As per the findings of a research on logistics outsourcing practices and performance of large manufacturing firms in Kenya carried out by Mulama, (2012) outsourcing resulted in decreased operating costs, improved customer satisfaction, increased productivity, timely delivery of services to clients, reduced lead time and improved profits, faster response to customer demands and use of modern technology in offering of services. This would spur the performance of the firms as it would enable the firm to concentrate on the basic activity (core competence) and use best methods and experiences.

F.B. Green, Turner, Roberts, Nagendra, & Wininger, 2008 mentioned some of the advantages of using third party logistics service providers cost reduction improved efficiency, service and flexibility, focus on core competency, freeing up resources elimination of infrastructure resources, risk- sharing, better cash flow and access to resources not available at one's own organization. A review a total of 152 articles published between 1989 and 2006 in 33 reputable international journals and classified into content and methodology related issues. Dhayanidhi, Azad, & Narashiman, (2011) Findings reports that involvement in 3PL arrangements, especially cooperative, partnership-like relationships, can result in multiple economic, organizational and financial benefits for shippers such as reduced logistics cost, improved service levels and end-customer satisfaction, improved access to and application of technology, reduced capital investment in facilities, equipment and manpower, increased flexibility and productivity, improved employee morale, increased access to wider markets and new competencies (as cited in Marasco, 2008).

Therefore, from the above reviewed articles the main benefits of outsourcing logistics are reduction in logistics costs improved customer satisfaction, increased productivity, timely delivery of services to clients, improved profits, focus on core competency and service and flexibility.

2.1.8 Challenges/Risk/Disadvantage of outsourcing logistics Service

In the Journal Article composed by (Park & Mike, 2006) indicate the annual logistics survey conducted by global consulting firm Accenture, in conjunction with Northeastern University, approximately 40 percent of all 3PL customers give neutral or negative ratings to their 3PL providers for customer service. Logistics industry analyst Eye for transport estimates that approximately 50 percent of all 3PL contracts are cancelled within three years. The reasons 3PL relationships fail or underperform fall into three categories: Careless 3PL selection, Poor 3PL implementation and Ineffective relationship management and performance evaluation.

Bendor-Samuel & Lynch, 2000 mentioned that outsourcing is fraught with potential problems such as: inadequately scoped work, inadequate control systems over how certain services are delivered, which in turn may raise the company's liability exposures; hidden costs and risks; inadequate high level management support or lack thereof; poor organizational communication; cross-functional political problems; unclear expectations; uncertainties associated with the stability of the service companies; and issues of confidentiality, security, timing, and lack of flexibility (as cited Waugh & Luke, (2011).

Rushton & Walker, (2007) classify the challenge of outsourcing logistics in to internal and external. They assessed the most likely factors that could cause an outsourcing strategy to fail. The results are inefficient management, dependence on the 3PL, loss of control over the 3PL, loss of logistics innovative capacity, performance monitoring and evaluation, latent information asymmetry, clashing company cultures and hidden costs. On the other hand the problem of the restricted availability of suitable management and labour, unpredictable and unexpected events such as natural disasters, terrorist attacks, corporate failures and industrial disputes that have resulted in, among other things, serious disruptions to supply-chain and logistics activities and added logistics problems with respect to the impact on stock levels and in particular the speed of delivery required are some of the external challenges.

Forrest B. Green *et al.*, (2008) also indicate the disadvantages of outsourcing such as: loss of control over the logistics function impact on in-house workforce, more distance from clients-loss of personal touch, discontinuity of services of a 3PL provider and differences of opinion or perception of the service level of the 3PL provider.

The failures of outsourcing are classified into three main types of risk factors: performance failure, organizational asset failure and market competition failure (Grigorenco, Aliona, Papadopoulos & Rotsios, (2013).

- Performance problems are subcategorized into four sub-items which are: delay of time, hidden cost, potential quality inferiority and incapacity to help solve emergency problems in time (Kersten & Blecker, 2006).
- Organizational assets problems are subdivided also into four categories. In this area problems may appear in the area of switching costs from abrogation of contracts, loss of knowhow, loss of control and employees" disturbance, also called staff degradation (Kersten & Blecker, 2006).
- Market competition represents a risk for outsourcing of logistics services. According to Kersten & Blecker (2006) these issues come from customer complaints and the diminishing of market reaction elasticity.

2.1.9 Leather Industry in Ethiopia

The Ethiopian leather and leather products industry occupies a unique place in the Ethiopian economy due to its strong linkage with the national resource base, hides and skins (Umer, 2012). As stated on article written by Abteu, (2015) there is a clear recognition of this potential by policy makers in Ethiopia as indicated by the Growth and Transformation Plan (GTP) and several other national plans that proceeded. In the country GTP document, the leather and leather products industry is one of the priority industries that are expected to contribute considerably to export diversification and foreign exchange earnings through greater value addition and productivity improvement (FDRE, 2010).

Considering the export activities of the country, the industry is the fifth largest foreign exchange earner in Ethiopia, earning about 8% of foreign exchange in the year 2006-2007. More importantly, the leather industry comes as the leading exporter, within the manufacturing sector, accounting for, on average, up to 67% of the total manufacturing export.

On the other hand, in spite of the fact that the Ethiopian leather industry seems to try to produce and export leather and leather products, the industry lacks competitiveness both in the domestic and international markets, makes it a sluggish and non-innovative industry (Umer, 2012). And yet the industry operates at less than 50% of its full potential, except for hide's production (i.e. 81% of utilization), not competitive, stagnant and facing multifaceted problems and constraints starting from the very beginning of the value chain (i.e. animal up keeping and husbandry at the house level) all the way (i.e. processing and production) to marketing of leather and leather products both on the national and global leather markets.

Based on the news article published on the Ethiopian herald by Dibaba, (2015) there are also various bottlenecks that prevent the sector from playing its role in the development of the national economy. Lack of competitiveness regarding efficiency, inputs, technology, and product design, specifically in leather and textile products, management, training, high overhead costs as well as inability to produce export standard commodities that meet the requirements of ISO9000 and ISO1400 are some of the challenges of the export sector that are to be resolved effectively.

Moreover, absence of export marketing skills and limited managerial and technical capabilities in the private business sector, low market promotion schemes; lack of trained manpower on international marketing intelligence. Inability to access information on latest technologies regarding raw material needs and foreign trade opportunities need to be effectively addressed. The challenges that Ethiopia faces in developing its export sector are certainly not limited to the above mentioned issues. One can mention several issues related to packaging, logistics and inefficiencies in processing the products. Sisay stated that as part of plans to grow its share of Ethiopian leather shoes on the global market, the government will also need to address key challenges facing the sector including power shortages, logistics and contrabands.

2.2 Empirical Reviews

From the perspective of India, Sahay & Mohan (2006) suggested that more than 50 % of the organizations have already outsourced logistics activities, such as outbound transportation (55.7 %), inbound transportation (52.2 %) and custom clearing and forwarding (51.5 %). other logistics activities outsourced are import and export management (34.5 %), outbound warehousing (33.9 %), inbound warehousing (29.5 %), labelling and packing (29 %), fleet management and consolidation (28.6 %), order picking (27 %) and inventory management (23.5 %) S. Zailani *et al.* published in (2015). Akman & Baynal, (2014) stated that according to a survey performed by Forrester Research, 78% of Fortune 500 companies have outsourced transportation services, 54% of them have outsourced their distribution services, and 46% of them have outsourced their manufacturing activities. Thus, based on the above mentioned results transportation.

Logistics outsourcing practices of UK firms was conducted by Jaafar, & Rafiq, (2005) and reports that transportation (82.5%) and warehousing (53.0%) remain the main services used by the customers, followed by information services and other value-added services. Around half of the TPL customers (49.5%) were satisfied with the services provided by the third-party logistics providers, followed by those who were somewhat satisfied with the TPL services (23.1%) and those who were very satisfied with the TPL services (20.9%) (Dhayanidhi *et al.*, (2011); Jaafar, & Rafiq, 2005). Thus, the above mentioned results show transportation take the first place from the outsourced logistics activities followed by others.

Wilding and Juriado (2004) investigated and found out the reasons firms outsource logistics service. the findings show that the reason to outsource 56 % of companies is as a result of the benefit gained from the competencies third party LSP, 54 % of the companies to acquire both operational flexibility and cost reduction, 50 % of them to focus on core business, 38% to avoid investment, 18 % to expand to new market, 6 % and 8% for labour consideration and other reasons respectively (Zailani *et al.*, 2015; Wilding & Juriado 2004). Another research conducted among 2000 organisations throughout the United States, Middle East and Europe. These results quantify some of the main objectives in outsourcing, and shows that the top five reasons for global outsourcing are cost reduction, quality improvement, increase exposure to worldwide technology and delivery, reliability improvements and use resources not available internally (Soodyall, Singh; Elmuti & Kathawala, 2000).

A study conducted by Waugh & Luke (2011) on Logistics Outsourcing by Manufacturers in South Africa, findings with regard to the expected benefits and listed reasons for their outsourcing, shows that 77% of the respondents indicated that they outsourced logistics to a large or moderate extent due to a focus on core competencies, 76% due to geographical coverage, 73% outsourced logistics to a large or moderate extent due to the pressure to improve customer service, 57% due to market expansion, 56% due to the pressure to cut costs, 49% due to a lack of internal expertise and capability, and 25% due to BEE and labour relations considerations. This indicates that the majority of respondents were under pressure to focus on core competencies and for reasons of geographical coverage. The majority of respondent organisations were also under pressure to improve customer service, expand markets and cut costs.

In a survey conducted in India, respondents ranked the top five reasons for using the services of 3PL providers. 80.6 % of the respondents state that logistics cost reduction is an important reason for outsourcing. 76% of the respondents use services of 3PL in order to concentrate on core competencies followed by improved customer service (71.3%), improved return on assets, increased inventory turns and productivity improvements (Dhayanidhi *et al*, (2011); Sahay, & Mohan, 2006). The overall research results indicates cost reduction, improved customer service, expand markets, focus on core business & flexibility, exposure to worldwide technology and delivery, reliability improvements are the major reasons lead companies to outsource their logistics activities to third party LSP.

Based on a study on the Benefits and Risks of Outsourcing Logistics in the Romanian Industry conducted by (Irina, Ilies *et al*), the findings on the benefits pursued by companies that resort to logistics outsourcing are 55% focus on the company's core competences, 96% Cost reduction, 66% increase customer service level, 44% increase competitiveness, 25% access to new technologies and 68% for risk sharing. Although, there are problems encountered during the outsourcing of logistic activities the cited outsourcing related risks were: the supplier's failure to meet the required quality standards (43%), events of default (39 %), poor communication with the supplier (33%), Loss of control on the process (13%), Lack of compatibility, between the two parties strategies (18%), Insufficient competences on the supplier side (25%) and hidden costs (67%).

The most frequent benefits of logistics outsourcing reported from respondents in Malaysia were time saving, cost savings, improved customer service and freight payment/credit terms, whereas respondents in Saudi Arabia cited cost reduction, improved expertise and reduction in capital deployment as the major benefits from logistics outsourcing. Improved customer service and more effective utilization of firm's human resources are the important benefits as perceived by users in Saudi Arabia (Sohail, 2006). Other benefits reported by them include improved customer service and a more effective utilization of firm's human resources (Sohail, & Al-Abdali, 2006).

Rushton & Walker, (2007) stated that a recent European survey identified some interesting major challenges for European 3PLs. The main results are the problem that 3PLs have of maintaining profits under price pressure from customers, up to 79 percent of the respondents felt that this was a big or a very big challenge. It reflects the view that margins are very low in the logistics outsourcing industry. A second issue that also scores very high in the survey is the relationship that 3PLs have with their customers. Up to 78 percent of the survey respondents feel that this is a big or a very big challenge.

Another issue that concerns European or regional 3PLs is the requirement for and introduction of global outsourcing. The survey results show that 68 percent of the respondents feel that the globalization of the 3PL market –the need to provide delivery services in new geographic regions – is a big or a very big challenge, and that 54 per cent feel that competing with giant global companies is a big or a very big challenge.

Another survey on the outsourcing risk management conducted by O'Keeffe & Vanlandingham, (2004) indicates the potential negative outcomes of outsourcing are a decline in on-time delivery performance and end customer satisfaction levels because of delays at third parties and product or service quality may also suffer in outsourcing, affecting customer satisfaction as a result of lack of careful selection of service providers and manage their outsourcing partners. On the other hand, an article written by McBeath, (2015) mentioned the challenges of outsourcing logistics from an extensive primary research recently conducted by Chain Link, surveying 125 manufacturers, distributors, and retailers, as well as the providers of outsourced manufacturing and logistics services.

The result shows that outsourcing performance :quality, on time delivery, excessive lead times (54.5%), escalating fees and outsourcing costs (44.3%), non-compliance with specification (36.4%), lack of sufficient surge capacity/flexibility to ramp up and down (25%), language, cultural barriers, time zone differences (19.3%), lack of visibility/transparency to current operation (14.8%),reputational issues like poor labour, safety, environmental practices (12.5%), inadequate technology capabilities (12.5%),IP theft unauthorized production and sales of companies product (9.1%),lacking transparency in accounting/ charges (6.8%) and others 2.3%.

Based on the above mentioned results most of the outsourcing companies face challenges on relationship that 3PLs have with their customers, competing with giant global companies, on-time delivery performance , excessive lead times and lower end customer satisfaction levels because of delays at third parties and as a result of lack of care full selection of service providers, , escalating fees and outsourcing costs, poor labour, safety, environmental practices and inadequate technology capabilities.

CHAPTER THREE: RESEARCH METHODOLOGY

Introduction

This chapter presents the research methodology that will be used in carrying out the research study by describing the research design, sampling, data collection approaches and instrument, and finally, approach to data analysis. Selection of research methods depends on the research objectives, nature of the subject and implementing facilities. The purpose of selection of research methodology is to identify an approach to find out the answer to the research questions more exactly and easily. The research methodology used in this study aims at assessment of the practice of outsourcing logistics to third party logistics service providers.

3.1 Research Design

The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). Once the objectives of a research project have been established, the issue of how these objectives can be met leads to a consideration of which research design will be appropriate. According to Singh (2006), the purpose of descriptive research is to examine the relationships of traits and characteristics (trends and patterns), facts findings and also oriented towards the descriptive of the present status of a given phenomenon.

On the other hand, Mulama, (2012) stated that a survey is feasible when the population is small and variable hence the researcher was able to cover all the elements of the population (Emory, 1995) and the study was considered to be more efficient and economical because he adopted a descriptive approach in trying focus on large manufacturing firms in Nairobi. Hence, the objective of the research is to describe and interpret the current practice of outsourcing logistics of exporters which are in the leather industry in Ethiopia with the aim of identifying the problems and its effect on being competitive in the global market. Thus, in this study descriptive type of research is applied.

3.1.1 Population of the Study

Based on the IPR Report undertaken by UNDP, 2012 Ethiopia possesses one of the world largest livestock populations of which 53.4 million cattle, 25.5 million sheep and 22.7 million goats (CSA, 2011). This puts the country as one of the richly endowed countries in livestock resources and the resource endowment of the country illustrates the considerable potential of the country in the leather industry. This report also mentioned that, on average the leather and leather products industry contributed 5.9 % to the total export earnings for the years 2004/05-2010/11 from this tanning is one of a contributing sector. Addis Ababa is a capital city in which a lots of Import/Export business process are undertaken and a place where most of logistics service providers that have a great contribution in the Import/Export process and service users are located. Therefore, the main focus area of this study will be tanneries which export leather and outsource their logistics services from third party service providers.

According to the Ethiopian Leather Industries Association, there are a total number of twenty six tanneries export leather products in Ethiopia while eight of them are operating in Addis Ababa. This study is made on four leather manufacturing firms operating in Addis Ababa namely Walia tannery, Addis Ababa Tannery, Ethiopia tannery and Batu Tannery. Since, the focus of this study is on leather exporting tanneries that outsource their logistic service four of them are selected based on employment of the service providers and total percentage of annual export. Therefore, the total population of this study will be four tanneries, which use the third party logistics service, in Addis Ababa. The tanneries refer to companies as well as individual units work in a department which have direct or indirect relation with outsourcing logistics practice within the companies.

Table 1.1: Population of the study

No	Company Name	Total number of employees	Number of employees in commercial department/ import/export or related departments
1	Walia tannery	500	18
2	Addis Ababa Tannery	350	15
3	Ethiopia tannery	120	10
4	Batu Tannery	200	12
Total			55

Source: Researcher, 2016

3.1.2 Sampling Design

According to Kothari, (2004) a complete enumeration of all items in the „population“ is known as a census inquiry. It can be presumed that in such an inquiry, when all items are covered, no element of chance is left. As per Dawson, (2002) for some research projects there will be only a small number of people within your research population, in which case it might be possible to contact everyone is called a census. Since, in this study there is small number of population and need to contact everyone in the population census survey was applied.

3.1.3 Sample Size

According to Kothari, (2004) sample size refers to the number of items to be selected from the population to constitute a sample. The total number of the population is fifty five comprises of the top level managers, the department head and employees in commercial department, head and employees in import/export department and personnel working with those departments in the exporting and logistics outsourcing tanneries, located in Addis Ababa, Ethiopia. Due to small number of the research population the sample size were fifty five employees working in selected tanneries.

3.1.4 Methods of Data Collection

To get relevant information about the study both primary and secondary data were used. To get primary data close ended questionnaires prepared by the researcher were distributed to the selected respondents. Also semi-structured interview were prepared for top management or department heads working in four selected tanneries. Moreover, secondary data play vital role in research studies such that they provide information for us to understand, explain, and solve our research problems (Ajakaiye, 2012). Thus to gather secondary data the researcher used different documents, journals, articles, research papers, internet source, and books.

3.1.5 Methods of Data Analysis

In this section, data preparation and description of the data are done respectively. The data preparation involves editing, coding and entry the data in computer and the data analysis will be done by using both qualitative and quantitative analysis. Descriptive statistics were used to analyze the basic features of the data in the study for the quantitative analysis. In this study, SPSS software was applied to analyze and interpret the data. The data are tabulated and summarized using percentages and frequency distribution tables, mean and standard deviation while pie and bar charts were used for presentation of findings.

3.1.6 Ethical Consideration

The researcher addressed ethical considerations of confidentiality and privacy. The respondents participated in response of an interview and questionnaire were expressed their full consent to participate in this study and also they were not required to write their name on questionnaire, they were notified to kept their response confidential and used for only academic purpose. The response that the participants gave is analyzed without any change by the researcher. In addition the reference works of other researchers and authors are cited appropriately.

CHARTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis, results and discussions on the overall practice of outsourcing logistics activities. The findings are presented in percentages and frequency distributions, mean standard deviations and charts. To assess the logistics outsourcing practices and its effect on firm's competitiveness in the global market of leather manufacturing firms in Ethiopia. To do so a total of 55 questionnaires were distributed to staffs working in commercial department, sale and administration departments, import/export department and other staffs involved in outsourcing logistics activities of four leather manufacturing firms namely Addis Ababa Tannery Share Company, Ethiopia Tannery Share Company, Wallia Tannery and Batu Tannery located in Addis Ababa. Finally 50 questionnaires were returned which represents nearly 91% of the total sample size.

4.2 Reliability Test

According to Kaufman & Laufman, (2005) reliability refers to the consistency or dependability of a measurement technique, and it is concerned with the consistency or stability of the score obtained from a measure or assessment over time and across settings or conditions. Reliability test has been done to check whether the consistency or stability of the score obtained from a scale used on the questionnaire is measuring as it is needed to measure. For the test of reliability Cronbach's alpha was used as a measure of internal scale consistency using SPSS (Statistical package for social science studies).

Table 4.2 Reliability Statistics

Cronbach's Alpha	N of Items
.798	38

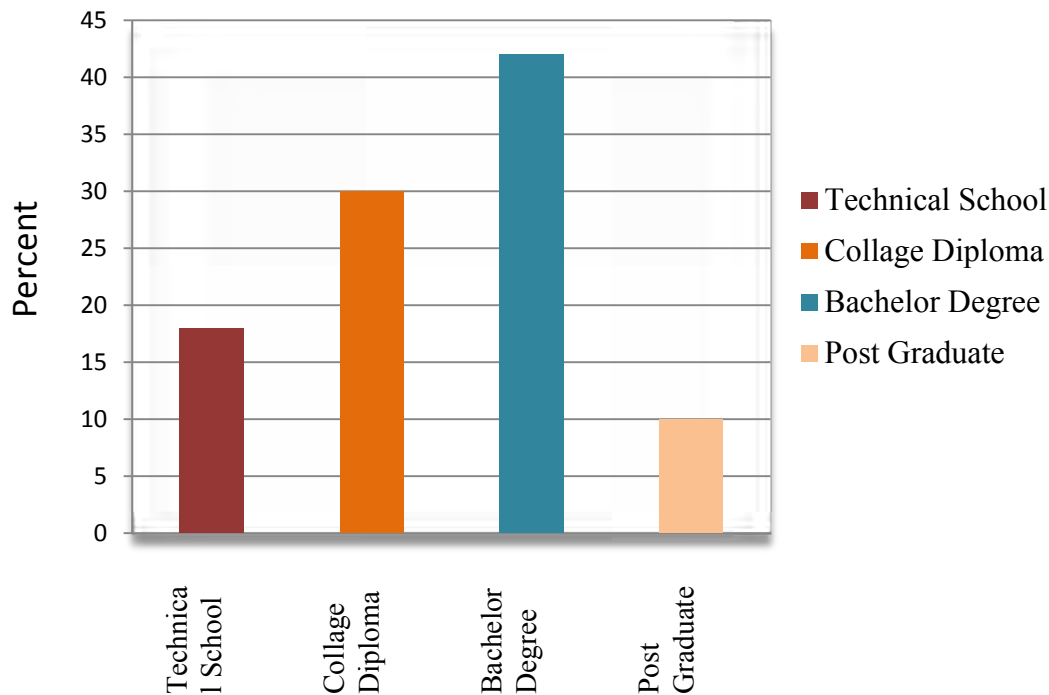
As per the above result found from the data collected from 20 respondents the overall Cronbach's alpha score is 0.798. Nunnally, (1978) has indicated 0.7 to be an acceptable reliability coefficient, since score of 0.798 is above the standard threshold level the questionnaire were reliable.

4.3 Respondents Profile

The demographic information considered in this study included educational background and experience of respondents working in the position and within the organization.

4.3.1 Educational background

Figure 4.3.1 Educational background

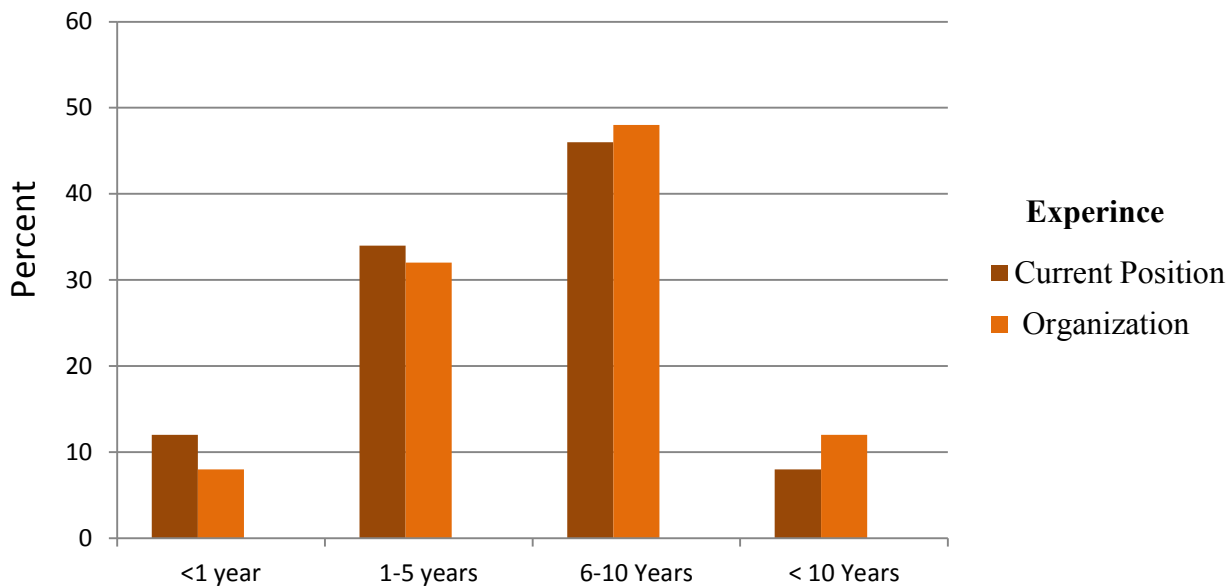


Source: Own Survey, 2016

As it is shown in figure 4.3.2 above 18% of the respondents have complete Technical School, 30% Diploma, 42% Bachelor Degree and the rest 10% are post graduates. The result indicates that most of the respondents are Bachelor Degree graduate and it is believed that they can easily identify the benefits and challenges of logistics outsourcing practices.

4.3.2 Experience of Respondents

Figure 4.3.2 Experience in Current Position & Organization



Source: Own Survey, 2016

As shown in figure 4.3.3 12% of the respondents worked in their current position and 8% in the organization for less than a year, 34% of the respondents indicated that they had worked in their current position and 32% in the organization for 1 to 5 years, 46% of the respondents indicated that they had worked in their current position and 48% in the organization for 6 to 10 years and 8% worked in their current position and 12% in the organization for over 10 years. The result indicates that majority of the respondents had worked in the current position and organization for 6 to 10 years. Since, the respondents have the experience it is believed that they understand the effect of outsourcing logistics practices on company's competitiveness in the global market.

4.4 Analysis and Discussion on outsourcing Practices, Benefits and Challenges

In this part the findings on the practice of logistics outsourcing, its benefits, internal and external challenges were discussed.

4.4.1 Logistical activities that are outsourced by the Leather manufacturing firms

The respondents were asked to indicate the logistic services outsourced by their company. The results are presented in table 4.4.1.

Table 4.4.1: Logistics services outsourced

Service	Yes	No
Transportation Management	64%	36%
Warehouse management	42%	58%
Inventory Management	36%	64%
Material handling	34%	66%
Freight Forwarding	96%	4%
Customs Clearing	96%	4%

Source: Own Survey, 2016

The finding in table 4.4.1 shows that 64% of the selected tanneries indicate that they have outsourced transport management while 36% indicated that they have not outsourced. On the other hand 42% of the firms indicated that they have outsourced warehouse management while 58% of the firms have not outsourced, 34% of the firms have outsourced materials handling while 66% did not outsource. 36% of the firms have outsourced inventory management while 64% did not outsource. Regarding to employment of freight forwarding services, 96% of the firms indicated that they have use freight forwarding and customs clearing services while 4% of the firms did not. The overall results shows that the logistics services outsourced by majority of the firms were transport, freight forwarding, customs clearing and warehouse management.

4.4.2 The Reasons to Outsource Logistics Activities

The overall result of interview questions conducted by the researcher to high level officials working in the selected leather manufacturing firm indicates the key reasons for using the services of the logistics service providers. The top reasons of outsourcing logistics were to focus on its core activities or competencies, to get operational flexibility, to obtain a number of value-added services from logistics service providers, to get quickly response customers" demands or timely delivery of services to clients or reduced lead time, to improve the profit of the organization and also for risk reduction.

4.4.3 Criteria employed for Selecting Third Party Logistics Service Providers

The selection of third-party logistics service provider is a complex process involving various criteria, which are often in conflict with one another. Based on various literatures reviewed on time shipment & deliveries performance, finance status/stability, past experiences, price, quality, technology and range of services provided are taken as the selection of an efficient third-party logistics service provider. 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 neutral have been taken to represent a variable which had a mean score of 2.5 to 3.5, the score of agree have been taken to represent a variable which had a mean score of 3.5 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.

Table 4.4.3 Criteria for selecting 3PLS providers

Criteria	N	Mean	Std. Deviation
On time shipment & deliveries performance	50	4.40	.495
Quality of service	50	4.38	.635
Finance status/Stability	50	4.26	.876
Past experiences	50	4.56	.644
Based on Price	50	4.58	.642
Expertise in technology /IT capability/	50	3.72	.809
Range of services provided	50	4.02	1.000
Valid N (listwise)	50		

Source: Own Survey, 2016

The score of the selection criteria to select efficient third party logistics service providers shown in the above table 4.4.3 indicates most of the selected leather manufacturing firms give priority for price with a highest mean score of 4.58, past experiences is the second highest score with a mean of 4.56 and on time shipment & deliveries performance with a mean score of 4.40. Others like quality of service with a mean score of 4.38, financial status/stability with a mean score of 4.26, range of services provided with a mean score of 4.02 and expertise in technology /IT capability/ with a mean score of 3.72 are the highest criteria next to price and experience. The above mean result indicates that the selected leather manufacturing firms give priority for price at the same time for past experience of the firm and other selection

criteria follow. Except the high variation of standard deviation which is > 0.9 for the criteria of a range of services provided all the other mentioned criterions have low variation of the standard deviation which is < 0.9 it indicates that respondents were unanimous on the criteria for selecting logistics service providers.

4.4.4 Benefits of outsourcing logistics activities

The most frequently observed benefits of logistics outsourcing reported from respondents are presented below in table 4.4.4. 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 neutral have been taken to represent a variable which had a mean score of 2.5 to 3.5, the score of agree have been taken to represent a variable which had a mean score of 3.5 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.

Table 4.4.4 Benefits of outsourcing logistics activities

Benefits	N	Mean	Std. Deviation
Outsourcing logistics service enables the firm to focus on its core activities or competencies	50	4.34	.798
Outsourcing logistics service enables the firm to free up investment on labour and capital resource	50	3.88	.718
As a result of outsourcing operational flexibility increase	50	4.34	.688
Outsourcing logistics service enables to get better access of resources and markets	50	3.52	1.216
Outsourcing logistics service helps to obtain a number of value-added services from logistics service providers	50	4.26	.527
Outsourcing logistics service helps to get quickly response customers' demands or timely delivery of services to clients or reduced lead time	50	2.16	.797
As a result of outsourcing the profit of the organization has improved.	50	2.44	.845
Outsourcing logistics service enables to access to resources not available at you organization	49	3.61	.786
Outsourcing logistics service enabled to share and reduce risks with service providers	50	4.30	.707
Outsourcing logistics service enable the firm to improve access and application of technology /use of modern technology in offering of services/	50	3.56	1.198
Valid N (list wise)	49		

Source: Own Survey, 2016

Mitra (2008) a review of the literature reveals diversified benefits on the outsourcing of logistics services to 3PL service providers (as cited Dhayanidhi *et.al*, 2005). The results of the mean shown in the above table indicate that outsourcing logistics enables the selected leather manufacturing firms to focus on core activities or competencies with a high mean score of 4.34, to increase in operational flexibility with a mean score of 4.34, to reduce or share companies risk with a mean score of 4.30, to obtain a number of value-added services from logistics service providers with a mean score of 4.26, to free up investment on labour and capital resource with a mean score of 3.88, to improve the cash flow and access to resources not available at you organization with a mean score of 3.61, to improve access and application of technology /use of modern technology in offering of services/ with a mean score of 3.56 and to get better access of resources and markets with a mean score of 3.52. However, the result shows the leather manufacturing firms did not obtain benefit regarding to get quickly response customers" demands or timely delivery of services to clients or reduced lead time with a mean score of 2.16 and improve the profit of the organization with a mean score of 2.44.

This shows that all of the respondents agreed on the listed logistics outsourcing benefits except the above two mentioned benefits. The low variation of the standard deviation which is < 0.9 indicates that respondents were unanimous on the benefits of outsourcing logistics practices. On the other hand, benefits of outsourcing logistics with a high variation of the standard deviation are shown on outsourcing logistics for getting better access of resources and markets, quickly response customers" demands or timely delivery of services to clients or reduced lead time and improved access and application of technology which is > 0.9 implies a significant difference on the above mentioned benefits among respondents.

4.4.5 Challenges of outsourcing logistics Service

The findings on the internal and external challenges faced by the selected leather manufacturing firms are shown in table 4.4.5. 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 neutral have been taken to represent a variable which had a mean score of 2.5 to 3.5, the score of agree have been taken to represent a variable which had a mean score of 3.5 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.

Table 4.4.5 Challenges of outsourcing logistics Service

	N	Mean	Std. Deviation
Internal challenges			
Lack of skill and expertise of personnel in the outsourcing team	50	3.82	.873
Inadequately scoped work and control systems over how certain services are delivered	50	3.84	.842
Loss of control over the Logistics Service Providers	50	4.16	.468
Ineffective relationship management and performance evaluation	50	3.88	.982
Higher cost and longer time taken to select third party logistics provider	50	4.24	.567
There is a high level of dalliance in customers order delivery	50	4.12	.849
External challenges			
Lack of security and flexibility of service providers	50	3.58	.810
Various hidden costs and high risks occurred as a result of using logistics service providers	50	3.76	.827
Higher switching costs as a result of cancellation of contracts	50	3.64	.772
Lack of capacity of service providers to deliver the required service	50	3.68	.957
Service providers offer higher price	50	3.68	.713
Valid N (listwise)	50		

Source: Own Survey, 2016

Regardless of potential outsourcing advantages, it also leads to several problems. Rushton and Walker, (2007) classify the challenge of outsourcing logistics in to internal and external. The findings in table 4.4.5 indicates the major logistics outsourcing challenges the leather manufacturing firms face internally and externally. The major internal challenges are higher cost and longer time taken to select third party logistics provider with a mean of 4.12, loss of control over the logistics service providers with a mean of 4.16, ineffective relationship management and performance evaluation with a mean of 3.88, inadequately scoped work, a high level of dalliance in customers order delivery with a mean of 4.12 and control systems over how certain services are delivered with a mean of 3.84 and lack of skill and expertise of personnel in the outsourcing team with a mean of 3.82.

On the other hand, the major external challenges are lack of capacity of service providers to deliver the required service and higher price offered by service providers with a mean of 3.68, lack of security and flexibility of service providers with a mean of 3.58, various hidden costs and high risks occurred as a result of using logistics service providers with a mean of 3.76 and higher switching costs as a result of cancellation of contracts with a mean of 3.64.

The low variation of the standard deviation which is < 0.9 indicates that respondents were consistent on the challenges faced by outsourcing the logistics service. However, the high variation of the standard deviation which is > 0.9 indicates the respondents were inconsistent on challenges of ineffective relationship management & performance evaluation and lack of capacity of service providers to deliver the required service. This shows most of the respondents were agreed on most of the logistics outsourcing challenges faced by their organization.

Based on the result of interview questions held by the researcher, it is found that all the above observed challenges are faced by leather manufacturing firms due to outsource their logistics activities. In addition, poor infrastructure and longer customs procedures are among the obstacles that hinder service providers' deliver the product on time. This result lower customer satisfaction and lose firms competitiveness in the global market.

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The primary purpose of this study is to investigate the practice and challenges of logistics outsourcing of leather manufacturing firms and its effect on their competitiveness in the global market. The study tried to examine leather manufacturing firms that employ third party logistics service providers to execute and manage logistical activities on behalf of them and export high amount of semi- processed leather located in Addis Ababa. In this section the summary of major findings were discussed. Conclusions and recommendation have been provided on the outsourcing logistics practice, challenges and competitiveness of leather manufacturing firms operating in Addis Ababa.

5.1 Discussion on Findings

5.1.1 Discussions on Logistics Outsourcing Practices and Criteria of the Leather Manufacturing Firms

The findings on logistics services outsourced indicate that majority of the selected leather manufacturing firms outsource transportation, freight forwarding, customs clearing and warehouse management. This shows the firms high demand to get customized logistical support provided by service providers while focusing on the core organizational activities to gain competitive advantage. Once the decision has been made to work with a 3PL, the next step is to choose the proficient logistics service provider. To evaluate all possible supplier candidates and select the most suitable supplier, a set of criteria must be defined. According to Bhatnagar *et al.*, 1999 by establishing a set of selection criteria, a company will be better able to select a 3PL provider that will best fit its needs and existing operations cited from Soh (2010).

The finding of this research shows that price, past experiences, on time shipment & deliveries performance, quality of service, finance status/stability, range of services provided and expertise in technology /IT capability/ are the major selection criteria's applied by the investigated leather manufacturing firms. Besides, the result indicates price, past experiences, on time shipment & deliveries performance are the selection criterions given the top priorities by the firms and followed by the other listed criterions. Bhatnagar *et al.* (1999), Dapiran *et al.* (1996) and Lieb *et al.* (1993); found that cost and service represent the most important criteria in logistics outsourcing decisions cited from Soh (2010).

On the other hand, Menon *et al.*, (1998) stated that logistics managers consider perceived performance, perceived capability, and responsiveness as important factors in selecting logistics providers. In general Damme & Amstel, (1996) appears that market and firm characteristics influence the choice of logistics providers, while managers achieve customer service improvement and cost reduction by outsourcing.

5.1.2 Findings on the benefits of outsourcing logistics in the Leather manufacturing firms

The benefits obtained in outsourcing logistics services as perceived by respondents in leather manufacturing firms were operational flexibility and focus on core activities or competencies, followed by reduce or share companies risk, obtain a number of value-added services from logistics service providers, free up investment on labour & capital resource, improve the cash flow and access to resources not available at you organization, improve access and application of technology /use of modern technology in offering of services/ and to get better access of resources and markets. Foster and Muller, (1990) stated that outsourcing can add measurable value to products, enhancing customer service, assisting in opening new markets, and providing dedicated resources. However, the result shows the leather manufacturing firms did not obtain benefit regarding to get quickly response customers" demands or timely delivery of services to clients or reduced lead time and improve the profit of the organization. In general the findings show that outsourcing logistics activities contributes to leather manufacturing firms" to obtain operational flexibility, reduce or share companies risk and allow company to focus on its core competencies.

5.1.3 Findings on the challenges of outsourcing logistics in the Leather manufacturing firms

In spite of the many advantages and drivers of outsourcing there are several challenges that may make outsourcing unsuccessful. Rushton & Walker, (2007) classify the challenge of outsourcing logistics in to internal and external. The findings show the internal challenges faced by the leather manufacturing firms as a result of outsourcing logistics are higher cost and longer time taken to select third party logistics provider, loss of control over the logistics service providers, ineffective relationship management and performance evaluation, a high level of dalliance in customers order delivery, inadequately scoped work and control systems over how certain services are delivered and lack of skill and expertise of personnel in the outsourcing team.

On the other hand, lack of capacity of service providers to deliver the required service and higher price offered by service providers, lack of security and flexibility of service providers, various hidden costs and high risks occurred as a result of using logistics service providers and higher switching costs as a result of cancellation of contracts are the major external challenges that come from the service providers.

According to Bradley, (1995) besides losing control, losing touch with important information, failure to select or manage providers properly, unreliable promises of the providers, their inability to respond to changing requirements, their lack of understanding of the buyer's business goals and difficulty of changing providers have also been cited as potential problems by their users. Generally, companies planning to outsource their logistics function must address each of these issues carefully, so that contract logistics can be a catalyst for improvement, rather than another problem to handle and by considering various aspects of the outsourcing process cautiously, firms can expect to achieve greater success with third-party logistics (R.M., & Sheng, 1998).

5.2 Conclusion

In this study outsourced logistics activities, selection criteria's, benefits and challenges on outsourcing and its effect on the competitiveness of leather manufacturing firms to the global market has been assessed. Outsourcing of logistics service enables the leather manufacturing firms to effectively perform their core activities while gain competitive advantage by handing over their non-core activities for service providers that are expert at logistics.

The findings show that the firms were outsourcing transportation, freight forwarding, customs clearing and warehouse management. The primary reason lead the firms to outsource their logistics activities is to get a quick response to customers' demands, cost reduction and earn other potential benefits which enable the firm to compete with the global market. It is also observed that to select the right service provider price, past experiences, on time shipment & deliveries performance are the major selection criterions given the top priorities by the firms followed by the other criterions.

The leather industry is one of the Growth and Transformational Plan (GTP) key priorities to Ethiopian government. According to Ethiopian Exporters Institute, Ethiopia exports a wide range of processed and semi-processed hides and skins to the global market next to coffee. The leather industry has a great contribution to the overall economy because it is one of the strategic industries for export development. However, this research finding has shown the industry is facing logistical challenges like increasing in operating cost and dalliance in customer order delivery that can cause to lose their competitive advantage and become a challenge to build well-known brand name and have loyal customer. Moreover, it will be difficult to stay in diversified and challenging global competitive market.

5.3 Recommendation

According to discussion and conclusion of this study, to overcome the challenges faced by the leather manufacturing firms as a result of outsourcing logistics activities, the following recommendations have been made. Regarding to the internal challenges;

- The outsourcing organizations need to identify their core activities which they can perform in best way, non-core activities and the reason why to outsource, to achieve cost saving, increase productivity and customer satisfaction.
Once firms have made a decision to outsource, they have to choose the proficient logistics service providers and clearly set procedures and criteria's to successfully select the right service providers.
- Thus, outsourcing organizations should concentrate on the proper criteria for the selection of the 3PLs and with the ever changing requirement of the end customers, the criteria once selected will not be sufficient to sustain in the dynamic environment of the present era so these criteria must be reviewed over time.
- To overcome the challenges of inadequately scoped work and control systems over how certain services are delivered and loss of control over the logistics service providers, outsourcing organization should clearly indicate the scope of the service in written contract, with a "service specification" that includes, service descriptions, agreed incentives, benefits and risks. Regular contract management reviews are essential to ensure that both parties are meeting their respective obligations and that the service is being continually improved.
- Outsourcing organizations should hire experts who have experience, knowledge, skills and also provide appropriate training that enable them to efficiently perform outsourcing.
- The outsourcing organizations can also adapt the best practice of successful organization that outsources their logistics.

On the other hand, to overcome external outsourcing logistics challenges outsourcing firms have to develop a vision and mission statement can help to communicate firm's goals and objectives and lay the groundwork for a strong relationship. Active communication is the most effective way to ensure outsourcing relationship stays on the right track and it also help to know about risks and issues early enough to diagnose the cause and resolve the issue. Therefore, outsourcing firms have to actively manage their relationship with the third party logistics, by assigning staffs which have management skill and knowledge.

5.4 Areas for further research

The study confined itself to leather manufacturing firms in Ethiopia and the findings may not be applicable in other sectors as a result of difference in size and product. It is therefore recommended that the study is replicated in other sectors to establish logistics outsourcing practices and competitiveness of firms. Since, this study is mainly concerned on logistic from outsourcer's perspective further research on both service providers and outsourcers could help to clearly identify major problem of outsourcing that hinder manufacturing firms competitiveness in the global market.

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Annex 1

ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

Department of Logistics and Supply Chain Management

Dear respondent,

First I want to put my gratitude for your time in responding to the research questions provided below. I'm a postgraduate student at Addis Ababa university school of commerce from the department of logistics and supply chain management, currently working on thesis project. The response you provide here gives a critical input to my research "Assessment on the Practice of Outsourcing Logistics to Third-Party Logistics Service Providers: Case of Some Exporters in the Leather Industry of Ethiopia."

You have been identified as one of the respondents for this study and you are kindly requested to fill the questionnaire. The information provided herein will be treated as strictly confidential. I thank you in advance for your time and cooperation in completing this questionnaire.

SECTION ONE: DEMOGRAPHIC AND RESPONDENTS PROFILE (Please Put (√) Mark)

1. Name of the company.....

2. Your position in the company.....

3. Gender: Male ☐ Female ☐

4. Age : 18-25 ☐ 26-35 ☐ 36-45 ☐ Above 45 years ☐

5. Educational Background:

☐ High School

☐ Technical school

☐ College Diploma

☐ Bachelor's Degree

☐ Postgraduate

6. How long have you been working in the company?

Less than 1 Year ☐ 1-5 years ☐ 6-10 years ☐ More than 10 ☐
years

7. Years of experience in the current position?

Less than 1 Year ☐ 1-5 years ☐ 6-10 years ☐ More than 10 ☐
years

SECTION TWO: The following questions are designed to collect information on the overall practice, challenges and there effect of outsourcing logistics in companies' competitiveness.

Please indicate your answer about **outsourced logistics activities listed under** by putting (√) Mark on the space provided: **Yes=If Outsource, No=If Don't Outsource**

No.	Q.1 Outsourced logistics activities.	Yes	No
1	Transportation Management Activities		
2	Warehousing Management Activities		
3	Inventory Management		
4	Material handling Activities		
5	Customs Clearance		
6	Packing/Labelling Activities		
Please list other activities if it is not in the list under the above choices.			

Please indicate your level of agreement on **benefits of outsourcing logistics activities in your organization** by using the following rating scales; **1= Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree**, Please put (√) Mark in the appropriate column:

No.	Q.2 benefits of outsourcing logistics activities in your organization?	1	2	3	4	5
1	Enables to focus on core activities or competencies					
2	Help to free up investment on labour and capital resource					
4	Help to increase in operational flexibility					
5	Help to get better access of resources and markets					
6	Help to obtain a number of value-added services from logistics service providers					
7	Help to get quickly response customers" demands or timely delivery of services to clients or reduced lead time.					
8	Helps to improve the profit of the organization.					
9	Help to improve the cash flow and access to resources not available at you organization.					
10	enables reduce companies risk (risk sharing)					
11	To improve access and application of technology /use of modern technology in offering of services/					

Other justification: (Please list and rate them):						

Please indicate your level of agreement on the **Criteria's that are used by your company use to select Logistics Service Providers** by using the following rating scales; Please put (√) Mark in the appropriate column. **1=Strongly disagree 2=Disagree 3=Neutral 4= Agree 5=Strongly Agree**

No.	Q.3 Criteria's for selecting Logistics Service Providers	1	2	3	4	5
1	On time shipment & deliveries performance					
2	Quality of service					
3	Finance status/Stability					
4	Past experiences					
5	Based on Price					
6	Expertise in technology /IT capability/					
7	Range of services provided					
Other justification: (Please list and rate them):						

Please indicate your level of agreement on **Challenges your company facing as a result of outsourcing logistics Service** by using the following rating scales; **1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree**
Please put (√) Mark in the appropriate column

No.	The Challenges of outsourcing logistics Service	1	2	3	4	5
Internal challenges						
1	Lack of skill and expertise of personnel in the outsourcing team					
2	Inadequately scoped work and control systems over how certain services are delivered					
3	Loss of control over the Logistics Service Providers					
4	Ineffective relationship management and performance evaluation					

5	Higher cost and longer time taken to select third party logistics provider					
6	A high level of dalliance of customer order delivery					
External challenges						
7	Lack of security and flexibility of service providers					
8	Service providers failure to deliver on time/ Delay					
9	Various hidden costs and high risks occurred as a result of using logistics service providers					
10	Higher switching costs as a result of cancellation of contracts					
11	Lack of capacity of service providers to deliver the required service					
12	Service providers offer higher price					
Other justification: (Please list and rate them)						

Thank You!!!

Interview Questions

1. Is logistics a core/critical activity in your organization? Why?
2. What are the criteria's your organization use to select logistics service providers?
3. What are the reasons and benefits your organization gain from outsourcing logistics services?
4. What are the challenges your organization face as a result of outsourcing logistics activities?