



# **Addis Ababa University**

## **School Commerce**



**Department of Logistics and Supply Chain Management**

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### **Effect of Outsourcing Transport Service on Company Performance: Case of Panafric Global**

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

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

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Performance: Case of Panafric Global**

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Approved by examining board

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## **Declaration**

I, Ribka Tesema, hereby state that this study entitled “**Effects of Outsourcing Transportation Service on Company Performance**” is my work. All information in this study has been gathered and presented by following academic rules

Student Researcher

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Ribka Tesema

## Statement of Certification

This is to certify that I Ribka Tesema has researched the topic entitled '**The Effects of Outsourcing Transportation Service on Company Performance**' as partial fulfillment of the requirement of Master of Arts Degree in Logistics and Supply Chain Management. This study fulfills requirements to obtain academic Degree from the university

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Advisor: Busha Temesgen, PhD

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## **List of Acronyms/Abbreviations**

|              |  |
|--------------|--|
| FIATA .....  | International Federation of Freight Forwarders     |
| IAM .....    | International Air Transport Association            |
| EFFSAA ..... | Ethiopian Freight Forwarders and Shipping Agents   |
| UNIDO .....  | United Nations Industrial Development Organization |
| OTAP .....   | On-time arrival percentage                         |
| PDP .....    | Perfect delivery percentage                        |



## **Abstract**

*The purpose of this study was to examine the effects of outsourcing transport services on company performance. The study was carried out using the Explanatory and descriptive research design. The researcher included 82 respondents using random sampling. Data was gathered through a questionnaire and the qualitative result was analyzed using mean, percentage, and multiple linear regressions. The study explains the reason Panafric Global was engaged in contracting external transport companies was to reduce cost, capital investment in resources, improve flexibility, and offer service on demand.*

*Further, the result indicates that Panafric Global has gained profit from outsourcing in terms of reducing capital investment and efficient utilization of the company's assets. But, it also indicated that the company encountered challenges by outsourcing transportation services. Challenges observed in the study were loss of control, information asymmetry, and poor service quality provided by the outside company.*

*In order to improve the company performance, it's recommended to review the current working procedures and conditions in the contracts Panafric has with the external transporter. Also, it is recommended to build a relationship with the external transporters and monitor the outsourcing practice to examine the risks and benefits from time to time. Finally, it's recommended for the company to arrange training for concerned teams to enable the employees to expand the required skill to manage the contracted companies.*

*Keywords: Outsourcing, Transport service, and Company Performance*

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Outsourcing is a common business practice through which organizations transfer some of the internal activities and decision-making responsibilities of a company to outside providers, thereby improving their competitiveness in their operations and service delivery (Chase, 2004). Companies usually outsource a range of activities to accomplish a particular goal including cost reduction, improvement of product quality, improvement of flexibility (Lau & Zhang, 2006), increasing market coverage (Skjoett-Larsen, 2002), or perhaps to gain ready access to additional capacity.

Transportation is necessary for the entire supply chain, which is the connection between supply chain members. Transport management deals with the modes of transport, transport infrastructure, geographical location, type of delivery, load planning, routing, and scheduling. The primary function of transportation is to move goods from one location to another (Rushton and Walker, 2007).

Freight transportation plays a vital role in the economy because it connects suppliers, distributors, vendors, and consumers (Miao et al., 2011). Freight forwarders usually serve as intermediaries between the companies that employ them and the various transport services that are responsible for delivering their goods to customers abroad, including airlines, handlers and customs officers. Instead of acting merely as an intermediary, many freight forwarders have actually become transportation operators

and have their own transport assets. In addition, most of them hold contracts or exclusive agreements with other transport operators to attain reasonable rates.

Krajewska and Kopfer (2009) indicated that most freight forwarding companies reduce the capacity of their own vehicle fleet far under the varying total demand limit. There are additional outside carriers involved to obtain adequate transportation capital to meet the market. In addition, freight forwarding companies must schedule the fulfillment of their requests not only by routing and scheduling their own fleet, but also by selecting transport tasks to be performed by entrusting external independent freight carriers with their output. Using own vehicles for the execution of tasks is called self-fulfillment, while involving an external carrier is called sub contraction.

Although there are several reasons to outsource, there are also disadvantages to the practice that will put the company at risk and ruin the company performance like, loss of control, information asymmetry, poor service quality from the outsourced company, etc.

Forwarder is a service-oriented industry, and its quality of service is important factor for business success and transport is one of the main services freight forwarders offer. And, service quality is a key issue of the managerial goal of business to pursue customer satisfaction therefore, the purpose of this study is to examine the effect of outsourcing transport service on company performance.

## **1.2 Background of the Company**

Panafric Global Plc is a freight forwarding company founded in 1993 G.C in Ethiopia. The company offers a value-added service including international freight forwarding; intermodal trucking, customs formalities, freight consolidation, and international trade management. Panafric has more than seven branch offices including the office in Djibouti, There are over 163 permanents including 30 temporary employees. Panafric Global owns the warehouse & CFS Consolidation center of 3000 sq. meter and a new 7000sq. meter under construction. The company is a member of IATA, IAM, FIATA, EFFSAA, Cross Traders Africa, etc.

## **1.3 Statement of the problem**

Rapid and effective response in moving materials and information within a short time period is crucial and transportation is a key element in making this happen (Hummels, 2001). Due to the high fixed costs of trucks, many freight forwarders substantially reduce the efficiency of their own fleet and retain their usable capacity well below the varying demands of applications. The gap between the own fleet capacity and customer demands is filled by hiring extraneous capacities from other carriers on different terms. (Kopfer et al.2009). Due to high market competition companies are forced to look for option to reduce their cost and outsourcing became the best option (Peter, Embleton, Phillip, & Wright, 1998). Considering the situation most companies began outsourcing to reduce cost.



(Meixell, 2008) stated many companies outsource to reduce cost but, due to poor handling and face related risk. Panafric Global which is a third-party logistics (3PL) service provider serving a growing base of customers work with external transport companies to control fixed assets and supply the customer with the transportation service on demand. The company experience different challenges while working with external transport companies such as delay in securing trucks, lack of accurate information from outsourced company drivers, transport rate fluctuation which affects the company's profit as the company enter a minimum of yearly standing contracts with its clients, issues with truck quality and order cancelation at last minute. Such issues push away clients from working with Panafric Global as delay in transportation also affect their relationship with their buyer. Therefore the researcher was interested to study the effect of outsourcing transport service on company performance

In addition, in a research conducted by Wambui, (2012) titled outsourcing transportation service at DHL Supply Chain Kenya Ltd indicated related the challenges despite the benefits the company was gaining from outsourcing transportation service. Challenges listed were subcontracted transporters may not consistently meet the key operating standards required by the customer, subcontracted transporter drivers might become dishonest and might not give accurate information, the transporters sometimes refuse to provide their trucks unless rates are increased citing increased costs and for the actual contract rates can only be reviewed upon agreement with the client and this depends on a certain formula agreed at the inception of the contract. The researcher stated this difficulty affects service delivery and if the problem continues the client might terminate the contract citing high losses.

The researcher will try to find solutions to indicated problems and complaints from customers with the help of the research questions. Besides, as per the researcher's knowledge, there is no research done on the company in relation to such a topic. Therefore researcher is conducting the study to analyze the effect of outsourcing transport service on company performance.

#### ***1.4 Research Questions***

- 1.4.1 What are the effects of outsourcing Transport service on Company performance?
- 1.4.2 How does outsourcing practice affect company performance??
- 1.4.3 What are the challenges facing the company that in return affect the company performance by outsourcing the transport service??

#### ***1.5 Objective of study***

##### **1.5.1 General objective of study**

The general objective of the study is to analyze effect of outsourcing transport service on company performance.

##### **1.5.2 Specific objective of study**

- 1.5.2.1** To analyze the effect of outsourcing transport service on company performance

**1.5.2.2** To determine the outsourcing practice and benefits the company has gained from outsourcing

**1.5.2.3** To examine the hurdles of outsourcing transport service on company performance

## **1.6 Significance of study**

Companies are often looking for a competitive advantage that will differentiate them from competitors selling a similar product or service. The competitive advantage is achieved by offering value-added consumer services, reduced costs, or better flexibility. In today's competitive business world and growing market demand, excelling in every aspect of the company is a must to win the consumer.

The study will give insight to freight forwarders on the effects of outsourcing transport service on company performance. Moreover, this study could serve as a source of information for other researchers who are interested in further studying the effect of outsourcing transport in logistics service provider itself

## **1.7 Scope of the study**

The main focus of the study was to analyze the effect of outsourcing transport services on company performance. The researcher conducted the study on a single local freight forwarding company. Data collected through questionnaires arranged in the Likert form. The questionnaires were distributed randomly to 116 employees of the company.

The study considered tactical, strategic, and transformational levels of outsourcing as independent variables and company performance indicators such as profitability, cost efficiency and service quality as dependent variables. To test the relationship between dependent and independent variables multiple linear regression models were applied.

### **1.8 Limitation of Study**

The researcher conducted the study on one local company. The survey was carried out based on the employees' perspective on the outsourcing practice of the company. Therefore, the finding of the study could not be generalized for all local freight forwarding companies. Also, the study involved 116 employees out of 163 using sample size calculation as the researcher could not reach all employees, plus some employees do not have a close link with the transport department to provide accurate information for the study.

### **1.9 Organization of the paper**

The study has three chapters that deal with a different subject. The first subject is the introduction part, which contains the background of the study, the background of the company, statement of the problem, and objective of the study, Significance of the study, data collection, limitation, and definition of terms and scope of the study.

Chapter two contains a review of related literature in the subject matter and chapters three contain methodology to be employed;

### **1.10 Definition of Terms**

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

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

**Subcontracting** : subcontracting can be defined as an economic relationship where one entity (the main contractor) request another independent entity(the subcontractor) to undertake the production of parts, component's, sub-assemblies or the provision of additional services that are necessary for the completion of the main contractor's final product, always in accordance with the main contractor's specifications (UNIDO,2003)

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **2.1 Definition of Outsourcing**

Handfield (2006) defined outsourcing as strategically using external resources to process the activities that were handled internally.

Outsourcing is contracting out of a business function to an external provider (Overby, 2007). In that sense, two organizations may enter into a contractual agreement involving service and payment exchange. Outsourcing is increasing rapidly across the world as companies see it as a way of achieving strategic goals, enhancing customer loyalty, and delivering other efficiencies. Ellram (1997) stated that outsourcing business is expanding as many companies believe that outsourcing is will enable them to offer efficient and effective service to customers

Nilakshi and Ghazali (2011) indicated that outsourcing involves two parties that is buyer and supplier and the process includes handing over the internal process to external specialists for better results. Other authors have defined it as a transfer of control (Donada & Nogatchewsky, 2009) of internal business activities and processes to an external party (Kotabe & Mol, 2009; Lee, 2001; Li & Choi, 2009; Kroes & Ghosh, 2010).

Various studies have established different definitions for outsourcing and these vary in terms of partner contract form keeping, outsourcing moves, expected outcomes and business nature. However, Li and Choi (2009) viewed services outsourcing as a ‘choice of replacing internal service functions with the use of external agents to perform one or more services activities’ Outsourcing assists management in concentrating all their intellectual resources, experience and energy on the distinguishing skills that offer the firm a market advantage. Focusing on the core activities ensures collective learning, in particular how to organize different production skills and incorporate multiple development streams. Outsourcing is seen as an opportunity by businesses to hand internal activities to external companies to handle the logistics service to the minimum cost.

## **2.2 Benefits of Outsourcing**

Outsourcing provides multiple consumer benefits, focuses on core competencies, cost savings, quality and versatility, time to market and access to different technologies are some of the advantages listed in Deloitte Consulting (2012)

Rich (2014) notes that many organizations will need to react even more quickly, accurately and thoroughly to future market changes, supply channel issues, customer requirements, competitive challenges, global options, new opportunities, technological advances, and resource demands in order to remain competitive and relevant with this entire operation taking place simultaneously within several businesses. Some organizations may need to 'think out of the box' about available

resources and consider the potential benefits listed below for outsourcing procurement.

Outsourcing provides great advantages. Outsourcing, for example, allows companies to find and hire the best specialist experts for specialized work. Using outsourcing also helps companies keep more cash on hand, freeing up resources for other purposes, such as improving capital. In terms of wages and benefits, it is also always cheaper and reduces risks and costs. Outsourcing will also allow a company to concentrate on its core components without withdrawing from ancillary roles and support. Outsourcing logistics lets the business grow globally and work on a much greater scale. Through setting up distribution operations in another country within a fairly short time frame you can do business wherever the opportunity presents itself. Outsourcing logistics allows a firm to focus on basic activity (core competency) and use best methods and experiences. It also enhances the competitiveness of the company so that the business can respond to changing consumer needs more quickly and effectively. Cost-cutting and application of high technologies is also a benefit of outsourcing to many firms. According to Lieb et al. (cited on Wanjiru 2013) across many industries, outsourcing logistics activities has become a rapidly expanding source of competitive advantage and logistics cost saving. He reported that some firms routinely have achieved a 30 – 40 % reduction in logistics costs and have been able to greatly streamline global logistics processes as a consequence of outsourcing.

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



view. Outsourcing is too often perceived by businesses as a way to minimize only short-term direct costs (operational impact). Through strategic outsourcing, however, businesses can also dramatically lower their long-term capital investments and maximize their core competencies (strategic impact). The following is a description of the of some outsourcing's financial and strategic advantages.

### **2.2.1 Operational Impacts**

**Cost reduction-** the outsourcer can experience lower logistics costs due to the increased efficiency of the external contracted company. Improved logistics service- the outsourcer can benefit from the third-party logistics provider's increased levels of service consistency. This boosts efficiency and may lead to increased customer satisfaction.

### **2.2.2 Strategic Impacts**

**Access to logistic expertise-** the external transport service provider is likely to be aware of current developments in the logistics field such as new regulations, innovations, and logistics technology. It will, therefore, pass on the benefits of its knowledge to the outsourcer as a result of the outsourcing agreement.

**Concentrate on core competencies-**Some businesses have found that they must reduce the number of functions they perform and focus on their core competencies in order to stay competitive in their field. To do this they need to reduce the resources

and efforts spent outside their core competences. Many companies have made the strategic decision to minimize their participation in the logistics functions. Outsourcing gives businesses the ability to cut back on their logistics resources while retaining high logistics service levels.

**Economies of scale-** Logistics economies of scale are not achievable for many companies because of the relatively small size of the undertaking. In some cases, a strategic decision can be made to access these economies of scale, not by expanding but by outsourcing the logistics functions to a third-party logistics service provider who is already large and efficient enough to achieve the desired economies of scale.

### **2.3 Challenges associated with outsourcing**

(Denisa et al. 2015) stated that there is a huge risk associated with outsourcing despite the benefits. Several scholars such as Dean (2012); Kathawala, Zhang, Shao (2005) summarized that outsourcing can be misused and how the desired performance cannot be achieved.

According to Haizer& Render (cited in Wanjiru 2013), some of the drawbacks of outsourcing include loss of control and creating future competition. In addition, poor communication, ineffective management, lack of information on the sensitivity of the business goals, and difficulty of changing providers have also been cited as potential problems by their users (Bradley, cited in Wanjiru 2013). Some of the challenges of outsourcing are as below

**Latent Information Asymmetry** –irregularity of information exists in logistics outsourcing. Customers complain stating third-party logistics provider rarely has complete information about the contracting company; similarly, the contracting company may have incomplete information about the third-party logistics provider this due to the poor relationship with the contracted company

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

**Problems with quality:** if the outsourced company lacks experience in handling the service quality problem will exist.

## **2.4 Levels of Outsourcing**

There are three levels of outsourcing – tactical, strategic, and transformational.

### **2.4.1 Tactical level**

According to (Brown and Wilson, 2005) tactical outsourcing is used by organizations to resolve specific problems being experienced by a firm, viz.a lack of financial resources to make capital investments, inadequate in-house managerial competence, or a desire to downsize, etc. Tactical outsourcing is a form of traditional outsourcing

and is based on cost comparison and the make or buys decision. The tactical outsourcing results in visible benefits in the form of enhanced cash savings, minimizing the need for future investments, and resolving staffing issues. It involves the execution of a business process following the existing rules. Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry-specific capabilities by partnering with a chosen vendor (Hussey and Jenster, 2003). This is a common method used by large mature corporations for handling high-volume repetitive tasks. This is used for processes such as payroll transactions, human resource administration, and procurement.

#### **2.4.2 Strategic Outsourcing**

It is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers. The use of outsourcing for strategic reasons enables companies to strengthen their resources in order to reinforce their competitive advantage. McIvor (2000) consider that the concept of outsourcing has changed from a tactical approach seeking short-term results, especially cost reduction, to a more strategic approach that aims to achieve and maintain a competitive advantage. From this more strategic perspective, the analysis of the value chain, the core competencies, and the strategic risks of outsourcing must all be taken into account when deciding to outsource any of the firm's different activities (Lonsdale and Cox, 1997). Firms are increasingly opting for an outsourcing strategy,

which has become fashionable, both because of its advantages and its possible influence on organizational performance, as it enables the organization to focus on its core competencies, that is, on what it really can do well. Cheon et al. (1995) state that the resources of a given activity can be more or less strategic, depending, on the one hand, on the attributes that enable them to meet the conditions by which competitive advantage can be achieved (valuable, rare, inimitable and non-substitutable) and, on the other hand, on the resources allocated to the activity, based on their availability, or on the firm's interest in developing and strengthening those resources to attain a position of leadership.

### **2.4.3 Transformational Outsourcing**

It is defined as a long-term relationship through which a service provider assists the client in stimulating continuous business change while also achieving operational efficiency and effectiveness. This level of outsourcing is an emerging practice, where organizations are looking outside for help for more fundamental reasons – to encourage quick organizational change, implement new strategies, and reshape company boundaries. Transformational outsourcing places the ability to convey new capacities to the organization squarely in the hands of executives who have and value these capabilities. In other words, the outsourcing partner provides a management team that is experienced in the capability that the organization seeking change needs. Also, those executives are empowered by the outsourcing process to implement the practice they bring with them (Chew & Gottschalk, 2013).

## **2.5 Outsourcing Transportation and Company Performance**

Transportation is a significant contributor to the economy and a competitive business force. It is the activity that connects the business physically with its supply chain partners, such as suppliers and customers, and has a major influence on the satisfaction of the customer with the company. Transportation operations are those services that make the movement of goods and services from one point to another possible and are very vital within logistics (Farahani, Rezapour and Kardar, 2011). Many advantages of contracting shipping services are recognized by producers, distribution firms and everyone who moves freight. They often go far beyond merely the shipping freight costs.

Transportation is often to blame for the failure of an organization to offer adequate customer service. Late deliveries can be the source of problems and complaints regarding the service. Also, goods could cause harm when in transit, or warehouse staff might load the wrong items at a shipping site. However, if a company delivers consistently on time with full and undamaged deliveries this will instill trust in the customer and gain business for the company. Transport service increase customer service, improve warehouse efficiency, allow 24 hours for new delivery capabilities, reduce inventory and finally improve cash flow (Farahani, Rezapour and Kardar, 2011). These operations can be linked to the transaction cost theory, so much so that the overall cost of transporting goods and services from the production point to the customer's end is reduced significantly.

## 2.6 Company Performance

The success of organizations is a broad term and an open issue with finite research on meanings and measures. Organizational performance is a significant parameter described mainly as a dependent variable that looks to produce performance alteration. The most common performance drivers includes customer satisfaction, cost efficiency, good management of resources, value creation innovation, and profitability, all which are accomplished through, proper implementation of strategies and control used by the organizations. The key determinant of success for organizational performance includes access to appropriate information and skills, proper preparation, creativity, and flexibility. Organizational performance measures can be divided into two categories which are financial and non-financial measures. Financial measures consist of return on equity, profit, return on assets, market share while non-financial performance measures consist of the use of resources, innovation, quality of service delivery, strategic focus and employee development, etc. From the study of Gathungu and Mwangi, (2012), anticipating the capabilities of the organization is relevant for the organization especially in the identification and evaluation of opportunities within the organization's environment through analyzing or examining a new technology, penetrating into markets and being attentive to customer

## **2.6.1 Company Performance indicators**

Sink and Langley (1997) indicates that many companies have been shifting to outsourcing to enable them to emphasize on their core activities, manage their resource. The result was a growing practice by organizations including in the logistics sector. They set company performance three categories: cost-efficiency, productivity, and profitability to evaluate the outcome from outsourcing. Since the Panafric Global Company is offering service we consider service quality instead of productivity as the third dimension of the performance indicator.

### **2.6.1.1 Cost efficiency**

Organizations should deal with outsourcing when it is believed that some functions can be done faster, cheaper, or better by an outside service provider (Barthelmy and Adsit, 2003). Functions that are not core competencies of the organization are contestant for being contracted out. However, any skill or knowledge that permits an organization to serve its customer base better, that pact directly with the product or services it is upsetting to put out of the door, is one that must persist in-house. Cost efficiency remains the initial explanation for the improvement of outsourcing.

### **2.6.1.2 Service Quality**

Security of transportation, timeliness, convenience, accuracy and timeliness are important aspects of several service level assessments. Quality has been defined as



‘fitness for use’ and those product features which meet customer needs and thereby provide customer satisfaction (Juran and Godfrey, 1999). Service quality has emerged as an important area in the sustainability and growth of the business and its various dimensions have been explored by various academicians and researchers at the national and international levels.

### **2.6.1.3 Profitability**

Profitability is companies’ ability to make profit, and a profit is earning additional income from the service after the initial expense expenses invested to earn the income according to Görg and Hanley (2004, p.114) effect of outsourcing on profitability are value-enhancing, an increase of competition such as the use of a new technology and profitability margin.

Companies outsource to maximize profit as outsourcing enables them to reduce investment, operational, and other related costs. Third-party logistics service providers contract external transporters to reduce the need to invest in fleets and offer flexible service on demand and also maximize profit.

## **2.7 Empirical Findings**

Wambi, (2012) work entitled the outsourcing of transport service at DHL Supply Chain Kenya Ltd. The purpose of this study was to examine the outsourcing practice of DHL Supply Chain Kenya limited. The research indicates that by contracting with

external transporters, the company has gained profit, however, challenges were also encountered due to poor service and unavailability of the required type of fleet size, inconsistency, and related matters. Finally, the researcher recommended for the management of the company to review and modify the outsourcing strategies to improve the company performance

Kayumba, C. U. (2019) Kayumba, C. U. (2019) studied the effect of outsourcing on organizational performance. The study was conducted in three companies based in Rwanda with a total sample size of 115. The researcher used a multiple regression model to test a correlation between the independent variable (outsourcing activities) and the dependent variables' (productivity, cost efficiency, and profitability).

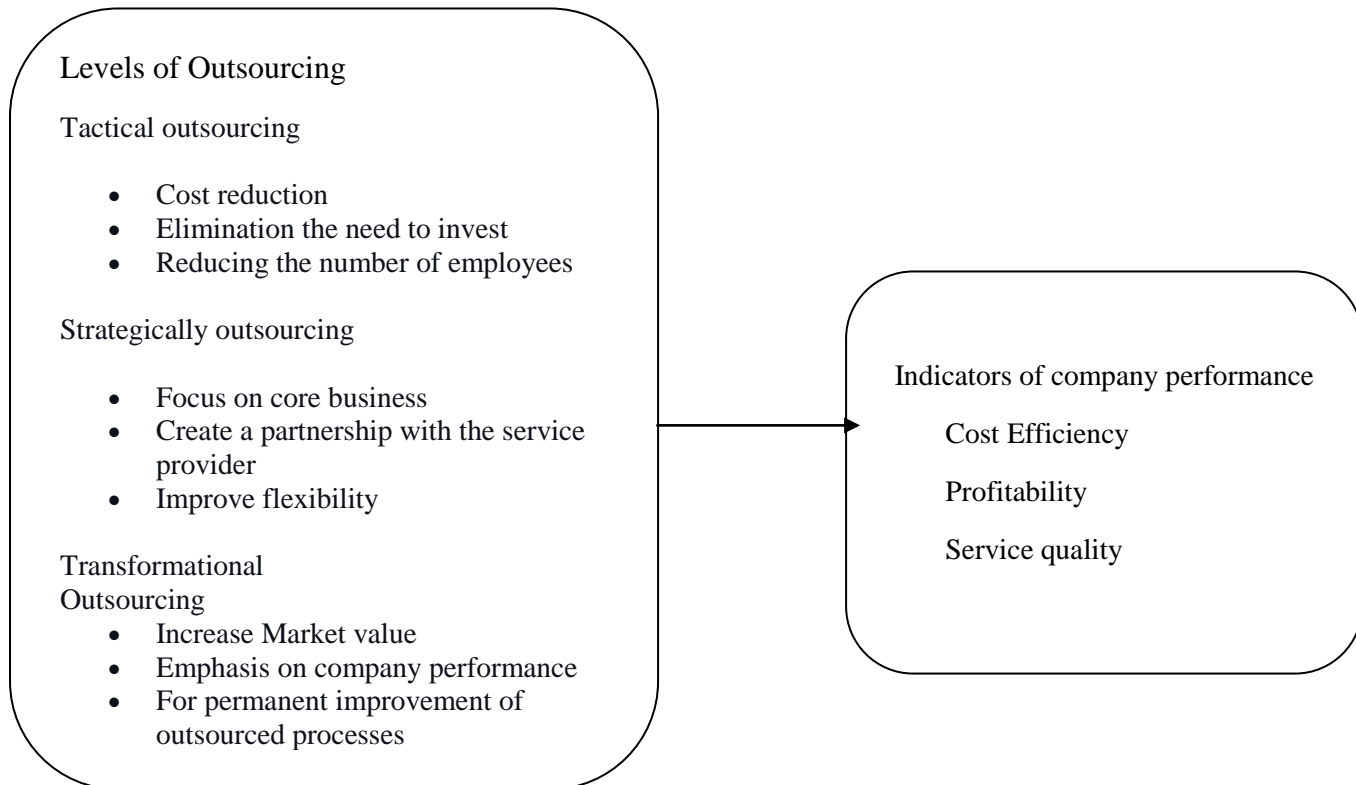
The finding indicates that the independent variable has a significant effect on cost efficiency however; it has no significance on productivity and profitability. In conclusion, the researcher has indicated that outsourcing activities have a weak connection with cost efficiency and profitability and a moderate correlation with productivity.

## **2.8 Conceptual framework**

Outsourcing offers a lot of advantages to businesses and third-party service providers to reduce investment and operational costs contract with the external transport service providers.

## Strategic outsourcing

The following conceptual framework was adopted from related literature to show the dependent (Profitability, cost efficiency, and service quality) and the independent variables (level of outsourcing tactical, strategic, and transformational outsourcing).



Conceptual framework of Effect of Outsourcing Transportation Service On Company Performance (source: self-prepared)

## **Chapter Three**

### **Research Design and Methodology**

#### **3.1 Introduction**

This chapter deals with the methodology that is employed for the purpose of the study to address the research questions. The chapter is divided into four sections; research design, Sampling design, Data type, sources, methods of collection, and analysis method.

#### **3.2 Research design**

An explanatory and descriptive research method was used to analyze the effect of outsourcing transport services on company performance. Descriptive research design was used to systematically describe the challenge of outsourcing, basic information of respondents, and levels of outsourcing practice. The explanatory research method helps to see the relationship between variables. When the focus is on cause-effect relationships, the study can be explanatory explaining which causes produce which effect (Yin, 1994)

#### **3.3 Sample and Sampling Size**

##### **3.3.1 The Population**

Panafrican global employees were considered as a population for the study. The company has a total of 163 employees and 116 of the employees were considered for the study. Simple random sampling technique was applied for questionnaire distribution

### **3.3.2 Sample size**

As the researcher is unable to reach the entire population for the study, a sampling technique was used to determine a sample size for the study. The researcher applied Yamane's (Israel, 2002) formula to determine the sample size and as per below formula sample size was calculated for the study

$$n = \frac{N}{1 + Ne^2}$$

Where: n is the sample size

N is the population size and e is the level of precision [163].

Let this formula be used for our population, in which N=163 with ±5% precision.

Assuming 95% confidence level and p=0.5, we get the sample size of 116

### **3.4 Type of Data**

The researcher used both primary and secondary type of data to gather the required information for the study.

### **3.5 Source of Data**

Primary type of data was collected through questionnaires and secondary type of data was collected from related journals, and research studies

### **3.6 Data Collection Methodologies**

The primary source of data was gathered in a questionnaire form while the secondary sources of data were obtained from related journals and research studies. The questionnaire was drafted in a Likert style incorporating four parts, the first segment was about the demographic data of respondents, the second element related to the level of outsourcing practice, the third part centered on the company performance and final questionnaire was on the outsourcing hurdles.

### **3.7 Data collection instrument**

The questionnaire was drafted by the researcher from relevant research studies and organized in a Likert form that determines the level of agreement and disagreement of the respondents. It was four parts the first part is about basic personal information of the respondents, the second part covered questions on the level of outsourcing practice and profits obtained by the company, the third part was on the effects of outsourcing on company performance, while the last part focused on the challenges of outsourcing

### **3.8 Data analysis methods**

Data Analysis is the process of analyzing collected data to make meaningful information out of them (Saunders, Lewis & Thornhill, 2009). Data collected through

questionnaire are analyzed quantitatively using descriptive statistics in a way of percentage and mean and correlation analysis was used to test the relationship between the dependent and independent variables. The data preparation involves coding which means assigning numbers to answers so that responses can be put into limited categories. And, the result was presented in tables with a detailed explanation

### 3.9 Validity and reliability

Cronbach's alpha is used to check the reliability of the data collection as it is the most common measure of internal consistency (reliability). According to Zikmund et al (2010). Cronbach's alpha is a measure of the internal consistency of items to the concept. Scales with coefficient alpha between 0.8 and 0.95 are considered to have very good reliability; scales with a coefficient of alpha between 0.6 and 0.7 indicate fair reliability. In this research, Cronbach's reliability test is used to check the reliability of both the dependent and independent variables. Below is a summary of the result

**Table 3.9 Reliability analysis**

| Items                               | Item | Cronbach's Alpha | Comments |
|-------------------------------------|------|------------------|----------|
| Cost efficiency                     | 3    | .705             | Accepted |
| Profitability                       | 3    | .705             | Accepted |
| Service quality                     | 3    | .704             | Accepted |
| The Tactical level of outsourcing   | 3    | .722             | Accepted |
| The Strategic level of outsourcing  | 3    | .702             | Accepted |
| Transformation level of outsourcing | 3    | .706             | Accepted |

## **Validity**

As per Kothari, (2004) Validity indicates the degree to which instruments measure what they are supposed to measure. The questionnaires were drafted from relevant research studies. Suggestions and comments were requested from my advisor and colleagues with Master's degree to check the validity of the questionnaire. And, the required changes were made as per the comments secured

### **3.10 Research Ethics**

Ethics had considerable importance in research work and to avoid any problems, all respondents were asked for their willingness to answer the questioner, and the researcher has provided insight to respondents about the questionnaire. Confidentiality was confirmed to respondents as well



## **Chapter Four**

### **Research findings and discussions**

#### **4.1 Introduction**

This chapter summarizes the conclusions and analytical observations on the data gathered. The study's findings were interpreted using different statistical techniques.

#### **4.2 Response Rate**

The research questionnaire was distributed randomly to 116 respondents. And, 82% response was secured.

#### **4.3 Basic information of Respondents**

The primary information of the respondents was required for the study to make sure accurate information secured for the study. The list included the business department and year of service, and the standard of education. The result of the demographic characteristics of the respondents summarized in table 4.3 below

##### **Education**

As indicated in Table 4.3, most of the respondents 65 (79.3 %) are Bachelor's degree holders, 12 (14.6 %) of them hold a Diploma, and the remaining 5 (6.1 %) of the

respondents have MA. This indicates that the employees are cable of understanding and answering following the instruction.

### **Year of Stay in the company**

Referring to table 4.3, most respondents 35 (42.7 %) had stayed in the company between 5 to 10 years, followed by 30 of the respondents' (36.6 %) that were with the company for less than 5 years. And, from the total respondents' 17 (20.7 %) of them had stayed in the company for more than 10 years. This shows that the respondents are well aware about the working procedure of the company and the information provided is accurate.

### **Department**

From the summary of Table 4.3, the findings show that most of the respondents' with the number of 26 (31.7 %) are from operation department, followed by several respondents 21 (25.6%) are from finance, on third level are respondents of 9 (11 %) from the transport and another department like IT and procurement, 4th highest number of respondents' of 6 (7.3 %) are from Marketing, HR and Admin last but not least respondents' from Packing department are of 5 (6.1%)

**Table 4.3 Basic information of Respondents**

| <b>Item</b>  |                       | <b>Respondents'<br/>Count #</b> | <b>%</b>    |
|--|-----------------------|---------------------------------|-------------|
| Respondents' year of<br>experience in the<br>Company | Less than 5 Years     | 30                              | 36.6%       |
|  | 5 to 10 Years         | 35                              | 42.7%       |
|  | More than 10<br>years | 17                              | 20.7%       |
| <b>Total</b>   |                       | <b>82</b>                       | <b>100%</b> |
| Respondents'<br>Education level                      | BA                    | 65                              | 79.3%       |
|  | Diploma               | 12                              | 14.6%       |
|  | MA                    | 5                               | 6.1%        |
| <b>Total</b>   |                       | <b>82</b>                       | <b>100%</b> |
| Respondents'<br>Department in the<br>company level   | Finance               | 21                              | 25.6%       |
|  | HR and Admin          | 6                               | 7.3%        |
|  | Marketing             | 6                               | 7.3%        |
|  | Operation             | 26                              | 31.7%       |
|  | Other                 | 9                               | 11.0%       |
|  | Packing               | 5                               | 6.1%        |
|  | Transport             | 9                               | 11.0%       |
| <b>Total</b>   |                       | <b>82</b>                       | <b>100</b>  |

Source – Primary Data

#### **4.4 Level of outsourcing**

To establish the outsourcing level of practice, rationale and benefits the company has gained by outsourcing transport service respondents were requested to rate related statements. The rating scale was 1= Strongly Agree 2= Agree 3 Neutral 4 = Disagree and 5 = strongly disagree

##### **4.4.1 Transformational outsourcing**

Referring to the below table 4.4.1, on questionnaire number one the result shows that most respondents 43.9 % (36) are neutral to the statement outsourcing transport service enabled the company to increase the market value, followed by 34.1% (28) respondents agreeing to the statement that outsourcing transport service enabled the company to increase its market value, 9.8% (8) of the respondents strongly agree and support the statement while the remaining 12.2% (10) disagree with the statement that outsourcing has increased the market value of the company. The mean score read 2.59 close to 3(neutral) meaning most of the respondents' are neutral to the statement outsourcing increased the market value of Panafric Global.

On questionnaire two , most respondents' 35.4 % (29) agree to the statement reading outsourcing transport service enabled the company to emphasis on its performance, followed by 14.6 % (12) respondents strongly agreeing, while 28.0 % (23) of the respondents disagree and 11%(9) of respondents' feel neutral to the statement. The

mean value indicates a result of 2.85 close to 3(neutral) so it can be generalized that most of the respondents 'neutral to the statement reading outsourcing has enabled Panafric Global to emphasize on its performance. For questionnaire three, most respondents' 35.4 % (29) disagree that outsourcing transport service is an effective way of improving company's performance, 23.2 %( 19) of respondents' responded neutral, followed by 19.5 % (16) respondents' agree to the statement, 11%(9) strongly disagree and last but not least 11.0%(9) of the respondents' strongly agree with the statement. The mean score result 3.03 close to 3(neutral) so it can be generalized that most of the respondents' were neutral to the statement that outsourcing enabled Panafric Global to improve its performance.

In conclusion respondents feel neutral to the three statements related to transformation outsourcing this reflects that employees feel neutral as the company is not fully outsourcing all the activities.

**Table 4.4.1 Transformational outsourcing**

| Item  | Rate scale | Count     | %          | Mean | Rank |
|---|------------|-----------|------------|------|------|
| Outsourcing transport services enabled the company to increase market value | 1.00       | 8         | 11%        | 2.59 | 3    |
|   | 2.00       | 28        | 35.4%      |      |      |
|   | 3.00       | 36        | 42.7%      |      |      |
|   | 4.00       | 10        | 11%        |      |      |
| <b>Total</b>  |            | <b>82</b> | <b>100</b> |      |      |
| Outsourcing transport service enabled the company to emphasis               | 1.00       | 12        | 18.3%      |      |      |
|   | 2.00       | 29        | 35.4%      |      |      |

|   |      |           |            |      |   |
|---|------|-----------|------------|------|---|
| on performance  | 3.00 | 9         | 9.8%       | 2.85 | 2 |
|   | 4.00 | 23        | 25.6%      |      |   |
|   | 5.00 | 9         | 11.0%      |      |   |
| <b>Total</b>  |      | <b>82</b> | <b>100</b> |      |   |
| Outsourcing transport service is effective way of improving the company performance | 1.00 | 9         | 11.0%      | 3.03 | 1 |
|   | 2.00 | 17        | 20.7%      |      |   |
|   | 3.00 | 18        | 22.0%      |      |   |
|   | 4.00 | 29        | 35.4%      |      |   |
|   | 5.00 | 9         | 11.0%      |      |   |
| <b>Total</b>  |      | <b>82</b> | <b>100</b> |      |   |

#### 4.4.2 Strategic outsourcing level

Referring to below table 4.4.2 questionnaire number one it shows that 31.7 % (26) of the respondents are neutral to the statement outsourcing transport service enabled the company to focus on its core activities, followed by 22.0% (18) of the respondents that agree and 39.0%(32) of respondents' that strongly agree with the statement. The final result shows, 7.3 %( 6) of the respondents disagree with the statement outsourcing enabled Panafric global to be focused on its core activities. The mean score result in 2.46 close to 2(agree) so it can be generalized that most of the respondents' agree that outsourcing has enabled Panafric Global to focus on its core activities

On questionnaire 2 the table summary shows respondents' 53.7 %( 44) agree with the statement that outsourcing has enabled Panafric Global to be flexible, followed by 46.3 %( 38) of the respondents that strongly agree. In mean score result 1.46 close to 2 (agree) so it can be generalized that most of the respondents' agree that outsourcing has enabled Panafric Global to be flexible.

On questionnaire number three, the summary of the table shows most of the respondents 57.3 %( 47) agree with the statement reading outsourcing enabled the company to be competitive in the market, followed by 39.0 %( 32) of the respondents that strongly agree and with 3.7% (3) neutral respondents. The mean score result in 1.64 close to 2 (agree) so it can be generalized that most of the respondents' agree outsourcing has enabled Panafric Global to be competitive in the market.

In conclusion the result shows that respondent's response was positive to the three statements meaning the company is outsourcing to be flexible, competitive and focus on core activities

**Table 4.4.2 Strategic Outsourcing**

| Item  | Rate Scale | Respondents'<br>Count | %           | Mean | Rank |
|---|------------|-----------------------|-------------|------|------|
| Outsourcing transport service enabled the company to focus on its core activities | 1.00       | 32                    | 39.0%       | 2.46 | 1    |
|   | 2.00       | 18                    | 22.0%       |      |      |
|   | 3.00       | 26                    | 31.7%       |      |      |
|   | 4.00       | 6                     | 7.3%        |      |      |
| <b>Total</b>  |            | <b>82</b>             | <b>100%</b> |      |      |
| Outsourcing transport the company to improve the flexibility                      | 1.00       | 44                    | 53.7%       | 1.46 | 3    |
|   | 2.00       | 38                    | 46.3%       |      |      |
|   | 3.00       | 0                     | 0           |      |      |
|   | 4.00       | 0                     | 0           |      |      |
| <b>Total</b>  |            | <b>82</b>             | <b>100%</b> |      |      |
| Outsourcing transport services enabled the company to be competitive              | 1.00       | 32                    | 39.0%       | 1.64 | 2    |
|   | 2.00       | 47                    | 57.3%       |      |      |
|   | 3.00       | 3                     | 3.7%        |      |      |
|   | 4.00       | 0                     | 0           |      |      |
| <b>Total</b>  |            | <b>82</b>             | <b>100%</b> |      |      |

Source – Primary Data

#### 4.4.3 Tactical outsourcing

Referring to the below table 4.4.3 result for the first questionnaire shows that that 51.2 %( 42) of the respondents strongly agree that outsourcing service enabled the company to reduce cost, 42.7 %( 35) support the same idea, while 3.7 %( 3)



respondents are neutral and 2.4% (2) of the respondents disagree with the statement. The mean score results in 1.59 close 2 (agree) so it can be generalized that outsourcing has enabled Panafric Global to reduce cost. Referring to the summary of questionnaire two in a table 4.4.3, 52.4 % (43) of the respondents strongly agree that outsourcing transport service enabled the company to minimize its investment cost, followed by 42.7 % (35) of respondents that also agree. 3.7 % (3) respondents were neutral and 1.2 % (1) respondents disagree with the statement. The mean score result in 1.42 close to 1 (strongly agree) it can be generalized that outsourcing has enabled Panafric Global to minimize investment costs on resources.

Referring to the last questionnaire 47.6 % (39) of the respondents strongly agree that outsourcing help the company to reduce employment cost, 32% (39) respondents' support the same idea and 9.8 % (8) were neutral while 3.7 % (3) disagree with the statement. The mean score reads 1.69 close to 2 (agree) so it can be generalized that most of the respondents' agree outsourcing has enabled Panafric Global to reduce employment cost

In conclusion the result shows positive response to the three statements and it means the company is outsourcing is to reduce investment cost, operational cost and requirement cost

**Table 4.4.3 Tactical outsourcing**

| Item   | Rate scale | Count     | %           | Mean | Rank |
|--|------------|-----------|-------------|------|------|
| Outsourcing transport service enabled the company to reduce cost                           | 1.00       | 42        | 51.2%       | 1.59 | 2    |
|  | 2.00       | 35        | 42.7%       |      |      |
|  | 3.00       | 3         | 3.7%        |      |      |
|  | 4.00       | 2         | 2.4%        |      |      |
| <b>Total</b>   |            | <b>82</b> | <b>100%</b> |      |      |
| Outsourcing transport service enabled the company minimize the need to invest on resources | 1.00       | 43        | 52.4%       | 1.42 | 3    |
|  | 2.00       | 35        | 42.7%       |      |      |
|  | 3.00       | 3         | 3,7%        |      |      |
|  | 4.00       | 1         | 1.2%        |      |      |
| <b>Total</b>   |            | <b>82</b> | <b>100%</b> |      |      |
| Outsourcing transport service enabled the company to reduce the number of employees        | 1.00       | 39        | 47.6%       | 1.69 | 1    |
|  | 2.00       | 32        | 39.0%       |      |      |
|  | 3.00       | 8         | 9.8%        |      |      |
|  | 4.00       | 3         | 3.7%        |      |      |
| <b>Total</b>   |            | <b>82</b> | <b>100</b>  |      |      |

Source – Primary data

#### **4.5Effect of outsourcing transport on company performance**

The objective of the study was to analyze the effect of outsourcing transport service on company performance. In order to analyze the study related statements were given

to respondents for rating and rating scale was 1 = strongly agree 2= agree 3= Neutral 4= Disagree 5 = strongly disagree

To analyze the result multiple linear regressions were applied. Multiple linear regressions are a model used to analyze the relationship between two or more explanatory variables with a linear equation to observed data. It helps in establishing a correlation between the independent and dependent variables and in this study, the dependent variable are the company performance indicators ( profitability, cost efficiency, and service quality ) and the independent variables are the levels of outsourcing practice (Tactical, transformational and strategic level of outsourcing).

Also, the mean and standard value of the three questionnaires for service quality, cost efficiency, and profitability were summarized in a table to determine respondents' agreement level. The result was interpreted by the mean score closest to the Likert scale-up

#### **4.5.1 Effect of outsourcing on cost efficiency**

The mean and standard value of the three questionnaires for cost efficiency summarized in the below table to determine respondents' agreement level.

Accordingly, the mean score is 1.9268, 2.1463, and 1.634 for the three variables.

As per the rating scale standard, the variables score is close to positive response 2 (Agreed) and 1(strongly agreed), meaning the majority agree that outsourcing has enabled Panafric Global to offer quality service.

**Table 4.5.1.1 – Statement of cost-efficiency**

| Item  | Mean    | Standard deviation |
|---|---------|--------------------|
| Outsourcing enabled the company to reduce investment                            | 1.87171 | .56934             |
| Outsourcing enabled the company to control the expense of outsourced activities | 2.3049  | .88456             |
| Outsourcing enabled the company to reduce operational cost                      | 2.1829  | .83338             |

**Source- Primary data**

**Regression Analysis – Multiple Liner regression**

The multiple regression result summarized in three tables’ model summary, ANOVA and coefficients output table with the relevant interpretation

Referring to the below table 4.5.1.2the value of R square indicates that there is 11.8% of the variance between the dependent and independent variables. R square for the overall model was 11.8 % with adjusted Square of 84 %,

**Table 4.5.1.2 Model Summary**

| <b>Model Summary</b>  |      |          |                   |                            |
|---|------|----------|-------------------|----------------------------|
| Model   | R    | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1   | .344 | .118     | .084              | .588808                    |
| a. Predictors: (Constant), Transformational, Tactical, Strategic level of outsourcing |      |          |                   |                            |

## ANOVA

Table 4.5.1.3 below results show that the combined independent variables are statistically insignificant at 95% confidence interval P-value is greater than 0.05 in the model. From the result it can be concluded that the three levels of outsourcing do not affect cost efficiency of the company.

**Table 4.5.1.3**

| ANOVA <sup>a</sup>   |            |                |    |             |       |                   |
|--|------------|----------------|----|-------------|-------|-------------------|
| Model  |            | Sum of Squares | Df | Mean Square | F     | Sig.              |
| 1  | Regression | 3.622          | 3  | 1.207       | 3.491 | .020 <sup>b</sup> |
|  | Residual   | 26.975         | 78 | .346        |       |                   |
|  | Total      | 30.598         | 81 |             |       |                   |
| a. Dependent Variable: cost  |            |                |    |             |       |                   |
| b. Predictors: (Constant), Transformational, Tactical, Strategic outsourcing |            |                |    |             |       |                   |

## Coefficients

From Table 4.5.1.4 results show the two independent variable are statistically insignificant as  $P > .005$  while one variable statistically significant to predict the dependent variable as  $P < 0.05$

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$\beta$  is a correlation coefficient

Service quality = 1.392 + 198 (Tactical) - 0.84(Strategic level of outsourcing) + 0.187(Transformational level of outsourcing)

This shows that service quality is predicted to be 1.392, given that all the other factors are held constant (level of outsourcing) as zero

In conclusion, independent variables tactical and transformation level of outsourcing cannot predict cost efficiency of the company while the third independent variable strategic level of outsourcing is strategically significant to predict cost efficiency and the tolerance values of all independent variables are above 0.1 and the VIF values are below 10 which indicate there is no multicollinearity problem. The interdependent variables are not strongly inter correlated

**Table 4.5.1.4 Coefficients**

| Coefficients     |                             |            |                           |       |      |                         |       |
|------------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| Model            | Unstandardized Coefficients |            | Standardized Coefficients | T     | Sig. | Collinearity Statistics |       |
|                  | B                           | Std. Error | Beta                      |       |      | Tolerance               | VIF   |
| (Constant)       | 1.392                       | .286       |                           | 4.869 | .000 |                         |       |
| Tactical         | 1.98                        | .119       | .183                      | 1.666 | .100 | .937                    | 1.067 |
| Strategic        | -.084                       | .125       | -0.78                     | -6.67 | .506 | .832                    | 1.202 |
| Transformational | .187                        | .082       | .272                      | 2.273 | .026 | .788                    | 1.269 |

a. Dependent Variable: cost

#### 4.5.2.1 Effect of outsourcing on company Profitability

The mean and standard value of the three questionnaires for profitability summarized in the below table to determine respondents' agreement level. Accordingly, the mean score is 1.6463, 1.6829, and 2.0488 for the three variables.

As per the rating scale standard, the value is close to 2 (Agreed), meaning the majority agree that outsourcing has enabled Panafric Global to offer quality service

**Table 4.5.2.1 Statement related to profitability**

| Item  | Mean   | Std. Deviation |
|---|--------|----------------|
| Outsourcing enabled the company increase the value of its service | 1.9512 | .83003         |
| Outsourcing helped to become more competitive in the market       | 2.0732 | 1.10867        |
| Outsourcing has improved the overall performance of the company   | 2.5366 | 1.12431        |

#### Regression Analysis – Multiple linear regressions

The multiple regression result for the dependent variable service quality was summarized in three tables' model summery, ANOVA and coefficients output table with the relevant interpretation

In the below table 4.5.2.2 the value of R square for the overall model was 10.5 % with adjusted Square of 71%, small size effect is reported by the model

**Table 4.5.2.2 R-square summary**

| Model Summary   |                   |          |                   |                            |
|---|-------------------|----------|-------------------|----------------------------|
| Model   | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1   | .325 <sup>a</sup> | .105     | .071              | .78711                     |
| a. Predictors: (Constant), Transformational, Tactical, Strategic level of outsourcing |                   |          |                   |                            |

**ANOVA Result**

Table below shows the results of ANOVA test which revealed that the combined independent variables tactical, strategic and transformational level of outsourcing was insignificant to predict company profitability with low F value of 3.066 and high P value 0.33

**Table 4.5.2.3 ANOVA**

| ANOVA <sup>a</sup>  |            |                |    |             |       |                   |
|---|------------|----------------|----|-------------|-------|-------------------|
| Model   |            | Sum of Squares | Df | Mean Square | F     | Sig.              |
| 1   | Regression | 5.698          | 3  | 1.899       | 3.066 | .033 <sup>b</sup> |
|   | Residual   | 48.324         | 78 | .620        |       |                   |
|   | Total      | 54.22          | 81 |             |       |                   |
| a. Dependent Variable: Profit   |            |                |    |             |       |                   |
| b. Predictors: (Constant), Transformational, Tactical, Strategic level of outsourcing |            |                |    |             |       |                   |



## Coefficients

From Table 4.5.2.4 below shows values for the regression equation for predicting the dependent variable from the independent variable. The results show all the independent variables are statistically insignificant as the  $P > 0.05$

The tolerance values of all independent variables are above 0.1 and the VIF values are below 10 which indicate there is no multicollinearity problem. The interdependent variables are not strongly inter correlated

The equation model is expressed as:  $Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$

Profitability = 1.789 - .221(Tactical) + 0.38(Strategic level of outsourcing) - .082 (Transformational level of outsourcing. This shows that service quality is predicted to be 1.789, given that all the other factors are held constant (level of outsourcing) as zero

**Table 4.5.2.4 Coefficients**

| Coefficients |                             |            |                           |       |        |                         |      |       |
|--------------|-----------------------------|------------|---------------------------|-------|--------|-------------------------|------|-------|
| Model        | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.   | Collinearity Statistics |      |       |
|              | B                           | Std. Error | Beta                      |       |        | Tolerance               | VIF  |       |
|              | 1                           | (Constant) | 2.658                     |       |        | .383                    |      | 6.946 |
|              | Tactical                    | -.193      | .159                      | -.134 | -1.210 | .230                    | .937 | 1.067 |
|              | Strategic                   | -.452      | .168                      | -.317 | -2.698 | .009                    | .832 | 1.202 |
|              | Transformational            | .216       | .110                      | .237  | 1.960  | .054                    | .788 | 1.269 |

Dependent Variable: Profit

### 4.5.3 Effect of outsourcing transport on company service quality

The mean and standard value of the three questionnaires for service quality summarized in the below table to determine respondents' agreement level. Accordingly, the mean score is 1.6951, 1.4146, and 2.0610 for the three variables. As per the rating scale standard, the mean score close to positive response 2 (Agreed), and 1 (strongly Agree) meaning the majority agree that outsourcing has enabled Panafric Global to offer quality service.

**Table 4.5.3.1 Statement related to service quality**

|   | Mean   | Std. Deviation |
|---|--------|----------------|
| Outsourcing increased capacity and enhanced quality of service                              | 1.6220 | .79567         |
| Outsourcing enabled the company to give flexible service to meet the market demand          | 1.7561 | .67698         |
| Outsourcing enabled the company to focus on core activities and increase quality of service | 2.2317 | 1.04585        |

### **Regression Analysis – Multiple Linear regression**

The multiple regression results for the dependent variable of service quality summarized in three tables' model summary, ANOVA and coefficients output table with the relevant interpretation

First table 4.5.3.1 shows Model summary -the R square value for the overall model was 51%with adjusted Square of 15 %, and the independent variables tactical, strategic and transformational level of outsourcing explains 51% of the variability of the dependent variable service quality

**Table 4.5.3.1**

| <b>Model Summary</b>  |                   |          |                   |                            |
|---|-------------------|----------|-------------------|----------------------------|
| Model   | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1   | .226 <sup>a</sup> | .051     | .015              | .67140                     |
| a. Predictors: (Constant), Transformational, Tactical, Strategic level of outsourcing |                   |          |                   |                            |

#### ANOVA

The table 4.5.3.2 shows that the independent variables tactical, strategic and transformational level of outsourcing is insignificant to predict service quality. It can be explained by low F value (1.402) and high P value (.249)

**Table 4.5.3.2**

| <b>ANOVA<sup>a</sup></b>  |            |                |    |             |       |                   |
|---|------------|----------------|----|-------------|-------|-------------------|
| Model   |            | Sum of Squares | Df | Mean Square | F     | Sig.              |
| 1   | Regression | 1.896          | 3  | .632        | 1.402 | .249 <sup>b</sup> |
|   | Residual   | 35.161         | 78 | .451        |       |                   |
|   | Total      | 37.057         | 81 |             |       |                   |
| a. Dependent Variable: Service quality  |            |                |    |             |       |                   |
| b. Predictors: (Constant), Transformational, Tactical, Strategic level of outsourcing |            |                |    |             |       |                   |

## Coefficient

Table 4.5.3.3 below result shows that values for the regression equation for predicting the dependent variable from the independent variable. The result show three of the independent variable is statistically insignificant as the  $P > 0.05$

The tolerance values of all independent variables are above 0.1 and the VIF values are below 10 which indicate there is no multicollinearity problem. The interdependent variables are not strongly interred correlated.

The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where in the study -  $\beta$  is a correlation coefficient,

Y= Service quality

X1= Tactical level of Outsourcing, X2= Strategic level of Outsourcing and X3= Transformational level of Outsourcing

$$\text{Service quality} = 2.343 - 0.080(\text{Tactical}) - .273(\text{Strategic}) - .044(\text{Transformational})$$

This shows that service quality is predicted to be 2.3343, given that all the other factors are held constant (level of outsourcing) as zero

**Table 4.5.3.3 Coefficients**

| Coefficients     |                             |            |                           |        |      |                         |       |
|------------------|-----------------------------|------------|---------------------------|--------|------|-------------------------|-------|
| Model            | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig. | Collinearity Statistics |       |
|                  | B                           | Std. Error | Beta                      |        |      | Tolerance               | VIF   |
| (Constant)       | 2.343                       | .326       |                           | 7.179  | .000 |                         |       |
| Tactical         | -.080                       | .136       | -.067                     | -.589  | .557 | .937                    | 1.067 |
| Strategic        | -.273                       | .143       | -.230                     | -1.905 | .060 | .832                    | 1.202 |
| Transformational | -.044                       | .094       | -.058                     | .467   | .642 | .788                    | 1.269 |

a. Dependent Variable: Service quality

#### **4.6 Challenge of outsourcing transport service on company performance**

To examine the challenges of outsourcing transport service and its effect on company performance related statements were provided to respondents to respond. The rating scale used was 1= strongly agree 2 = agree 3= neutral 4= disagree 5= strongly disagree

**Table 4.6 Challenge of outsourcing transport service**

| Item   | Rate of Scale | Count     | Column N %  | Mean | Rank |
|--|---------------|-----------|-------------|------|------|
| Company performance is affected by loss of control by outsourcing transport  | 1.00          | 43        | 52.4%       | 1.62 | 3    |
|  | 2.00          | 32        | 39.0%       |      |      |
|  | 3.00          | 3         | 3.7%        |      |      |
|  | 4.00          | 3         | 3.7%        |      |      |
|  | 5.00          | 1         | 1.2%        |      |      |
| <b>Total</b>   |               | <b>82</b> | <b>100%</b> |      |      |
| Company performance is affected by information asymmetry by outsourcing transport _  | 1.00          | 15        | 18.3%       | 2.16 | 2    |
|  | 2.00          | 48        | 58.5%       |      |      |
|  | 3.00          | 14        | 17.1%       |      |      |
|  | 4.00          | 1         | 1.2%        |      |      |
|  | 5.00          | 4         | 4.9%        |      |      |
| <b>Total</b>   |               | <b>82</b> | <b>100%</b> |      |      |
| Outsourcing transport service affect the company performance due to poor quality of service provided by outsourced company | 1.00          | 23        | 28.0%       | 2.29 | 1    |
|  | 2.00          | 30        | 36.6%       |      |      |
|  | 3.00          | 13        | 15.9%       |      |      |
|  | 4.00          | 14        | 17.1%       |      |      |
|  | 5.00          | 2         | 2.4%        |      |      |
| <b>Total</b>   |               | <b>82</b> | <b>100%</b> |      |      |

From the table above we can see that on the first questionnaire 52.4% (43) of the respondent strongly agree that loss of control affects company performance, followed by 39 % (32) of the respondents agreeing to the statement and 3.7% (3) of the

respondents were neutral. The remaining respondents of 3.7 %( 3) disagree and 1.2%(1) of the respondents strongly disagree that the company performance is affected by the loss of control. In summary, the mean value of the result reads 1.62 which is close to 1 (Strongly Agree) so it can be said most of the respondents strongly agree that Panfric Global performance is affected by the loss of control

On questionnaire number two under table 4.6, 58.5 %( 48) of the respondents agree that information asymmetry affects company performance, followed by 18.3 %( 15) of the respondents strongly agreeing to the statement when 17.1(14) of the respondents are neutral. The remaining 4.9 %( 4) respondents' strongly disagree followed by 1.2 %( 1) disagree with the statement. In summary, the mean value of the result reads 2.16 which is close to 2(agree) so it can be said most of the respondents agree information asymmetry affect the company performance.

The result for the last questionnaire, 36.6% (30) agree with the statement and 28% (23) strongly agree that poor quality of service by outsourced company affect performance and 15.9 %( 13) of them are neutral, 17.1% (14) disagree and 2.4% (2) strongly disagree with the statement. In summary, the mean value reads 2.29 which is close to 2 (agree) so it can be said most of the respondents agree that poor quality of service by outsourced company affect Panafric performance. In conclusion Panafric has been facing challenges like loss of control, information asymmetry, and poor service quality.

## CHAPTER 5

### SUMMARY, CONCLUSION, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of the research findings, conclusions, and recommendations following the objective

#### 5.2. Summary of the Findings

- To determine the practice and benefits of outsourcing three questionnaires were developed to review the level of outsourcing in the Likert style. The result for questionnaire developed in relation to elements of static level of outsourcing revealed the majority of respondents agree that outsourcing enabled Panafric Global to focus on its core activities, to be flexible, and to be competitive in the market with a mean score value of 2 close to (agree). The result related to tactical outsourcing shows the majority of the respondents strongly agree that outsourcing has enabled Panafric Global to minimize investment costs on resources with a mean score of 2 close to (agree). The result of the questionnaire developed for a transformational level of outsourcing shows the majority of the respondents were neutral with a mean score of close to 3(Neutral)
- To analyze the effect and relationship of outsourcing on company performance a multiple regression was carried out and from the findings of ANOVA result, it can be concluded that all the three independent variables are statistically



insignificant to predict the dependent variables as the P-value is greater than 0.05 meaning the level of outsourcing does not affect company performance

- Outsourcing has many possible benefits however, there are also huge potential risks associated with it (Denisa et al. 2015). The mean score of for the three questionnaires are between 1.62 2.29 close to the positive response that shows agreement meaning Panafric Global is facing the loss of control, information asymmetry and poor quality of service from the outsourced company that in turn affect performance

### **5.3. Conclusion**

- The findings reveal that Panafric Global has gained profit by outsourcing the transport service as it has enabled the company to offer flexible service to its clients, reduce cost, increase market value and focus on the overall performance. From the result, it can be seen that the majority of the respondents agreed that the company is practicing a tactical and strategic level of outsourcing and feel neutral to elements of the transformational level of outsourcing
- The finding of the ANOVA and Coefficient result explains that the three independent variables are statically insignificant as the P-value is greater than 0.05, therefore, any change in the level of outsourcing makes no effect on the company performance except strategic level of outsourcing on one of the dependent variable cost efficiency as the P-value is less than 0.05

- The result from the respondents also explains that Panafric Global faces challenges such as loss of control, information asymmetry and poor quality of service that in turn affect the company performance

#### **5.4. Recommendations**

From the finding below recommendation were made

- On the benefit of outsourcing - for the company to keep profiting from the outsourcing practice its recommend to keep a close business relationship with external transport service providers examining and modernizing the working procedures
- On the Challenges of Outsourcing - It's recommended for the company to utterly take the challenges and take necessary action. It is also advised for the current procedures to be reviewed and execute the necessary changes to eliminate hurdles affecting the company performance. Also, it is advised for the company to arrange related training for employees working closely with the external transporters to smoothly and efficiently manage the relationship
- Finally, on the outsourcing practice of the company - it is advised for the company to review if the level of outsourcing being practiced in the company is yielding a profit. And, make further study and take the necessary action for improvement.

## **5.5 Further Research**

- The study recommends for a further study be carried out to establish the factors that influence the performance of the company and to further analyze the effect of outsourcing transport service on company performance

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## ***Questionnaire***

Dear Respondent,

Kindly spend some of your time responding to these questions which would be used for academic purposes only: a thesis to be submitted to Addis Ababa University, school of commerce for the award of MA degree in Logistics and Supply Chain Management. The information you give will be kept confidential

Thanks in advance for your cooperation

### ***Section 1: Personal Information***

***Please put tick ( ) mark in the box according to your choice.***

#### ***1. Educational status***

- Diploma*
- BA*
- MA*
- Others*

#### ***2. Which department is your position in the organization?***

- Transport*
- Operation*
- Finance*
- Marketing*
- HR and Admin*
- Packing*
- Other*

#### ***3. Service year in this organization***

- Less than five years*
- 5-10 Years*
- Over 10 years*

**Section 2: Outsourcing Activities**

Please select the number you agree Rate Scale - Strongly Agree = 1 Agree =2 Neutral =3 Disagree =4 strongly disagree =5

| Item #. | Questions   | 1 | (2) | (3) | (4) | (5) |
|---------|---|---|-----|-----|-----|-----|
| 1       | Outsourcing transport service enabled the company to reduce cost/ <b>Tactical outsourcing</b>                           |   |     |     |     |     |
| 2       | Outsourcing transport service enabled the company minimize the need to invest on resources/ <b>Tactical outsourcing</b> |   |     |     |     |     |
| 3       | Outsourcing transport service enabled the company to reduce the number of employees/ <b>Tactical Outsourcing</b>        |   |     |     |     |     |
| 4       | Outsourcing transport services enabled the company to be competitive/ <b>Strategic outsourcing</b>                      |   |     |     |     |     |
| 5       | Outsourcing transport the company to improve the flexibility/ <b>Strategic</b>  |   |     |     |     |     |
| 6       | Outsourcing transport service enabled the company to focus on its core actives/ <b>Strategic</b>                        |   |     |     |     |     |
| 7       | Outsourcing transport service is effective way of improving the company performance/ <b>Transformational</b>            |   |     |     |     |     |
| 8       | Outsourcing transport service enabled the company to emphasis on the performance/ <b>Transformational</b>               |   |     |     |     |     |
| 9       | Outsourcing transport services enabled the company to increase market value/ <b>Transformational</b>                    |   |     |     |     |     |

**Section # 3 Company Performance –Please tick on the number your selection**

- **To what extent do you agree to the statements below relating to the effect of outsourcing transport service on cost efficiency?**

| Item |   | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 1    | Outsourcing enabled the company to reduce investment                        |   |   |   |   |   |
| 2    | Outsourcing enabled the company to control expense of outsourced activities |   |   |   |   |   |
| 3    | Outsourcing enabled the company to reduce operational cost                  |   |   |   |   |   |

- **To what extent do you agree to the statements below relating to the effect of outsourcing transport service on Profitability?**

| Item # | Questions   | 1 | 2 | 3 | 4 | 5 |
|--------|---|---|---|---|---|---|
| 1      | Outsourcing enabled the company increase the value of its service |   |   |   |   |   |
| 2      | Outsourcing helped to become more competitive in the market       |   |   |   |   |   |
| 3      | Outsourcing has improved the overall performance of the company   |   |   |   |   |   |

- **To what extent do you agree to the statements below relating to the effect of outsourcing transport service on cost service quality?**

| Item # | Questions   | 1 | 2 | 3 | 4 | 5 |
|--------|---|---|---|---|---|---|
| 1      | Outsourcing increased capacity and enhanced quality of service                              |   |   |   |   |   |
| 2      | Outsourcing enabled the company to give flexible service to meet the market demand          |   |   |   |   |   |
| 3      | Outsourcing enabled the company to focus on core activities and increase quality of service |   |   |   |   |   |

**Section # 4 Challenge of outsourcing please tick on the number you agree with the statement**

| Item # | Questions  | 1 | 2 | 3 | 4 | 5 |
|--------|--|---|---|---|---|---|
| 1      | Company performance is affected by loss of control by outsourcing transport  |   |   |   |   |   |
| 2      | Company performance is affected by loss of control by outsourcing transport  |   |   |   |   |   |
| 3      | Outsourcing transport service affect the company performance due to poor quality of service provided by outsourced company |   |   |   |   |   |