THE OUTSOURCING OF TRANSPORT SERVICES AT DHL SUPPLY CHAIN KENYA LTD

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature ……………………………………..                      Date ……………………….

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this project to my loving late father, Stanley Mungai, for the great sacrifice he made to educate me and my siblings and to my dear mother, Winnie Mungai, for the support and encouragement given during this study.
ACKNOWLEDGEMENT

I wish to thank most sincerely all those whose contributions have made this project a success. To my supervisor, Florence Muindi, for her assistance, commitment and advice all through to make this project a success.

I also feel indebted to DHL Supply Chain for sponsoring my MBA studies and giving me time off to sit for my examinations.

Last and most importantly, I wish to thank my husband, James and my daughter, Nicole, for their patience, love and understanding during the times I was away from them to concentrate on this research. Most of all, I thank God for the gift of wisdom and strength to complete this project.
ABSTRACT
Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements. Outsourcing assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. Focusing on the core activities ensures collective learning especially on how to coordinate diverse production skills and integrates multiple streams of technologies.

The purpose of this study was to investigate the outsourcing of transport services at DHL Supply Chain Kenya limited. The research design was a case study. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings of the study were that DHL has been utilizing external service providers since its inception in Kenya. The company was satisfied with the work of the external service providers, as this has led to positive developments within the organization. The benefits of outsourcing transport services included the decrease in operational costs, increased productivity, increased flexibility, increased focus upon a set of core activities and increased profitability. The company encountered challenges in getting an organization with the required services and a large size of fleet, most transporters would tend to have the same fleet size yet different fleet sizes are required, the subcontracted transporters may not consistently meet the key operating standards required by the customer, dishonest drivers, pilferage of goods and high information systems costs for fleet management. From the challenges that the organization faces in implementing the outsourcing strategy, the study recommended that the management of the company comes up with strategies which would ensure that the company is not faced by similar challenges whenever
they want to outsource some of its services. Further, the study recommended that the since the present study concentrated with one organization, a more extensive study covering more logistic firms should be undertaken for a comparison on benefits and challenges to be made.
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In global and highly competitive markets, organizations strive to be innovative and agile enough to meet customers’ demands. Competitiveness, based on organizational capabilities and production strategies, may lead to quality, efficiency and flexibility. In the pursuit of ‘mass customization’, flexibility and scale economies are followed simultaneously. The search for a system’s flexibility, responsiveness and reliability on one hand and low costs on the other, has led to the reconfiguration of the design and production activities and thus advocated the changes in the overall supply chain management (Suri, 1998). The reality of competing in a global supply chain environment has caused many organizations to focus on strategic renewal and creative solutions to manage and mitigate the risks of operating in today’s dynamic marketplace.

Rapid changes in the business environment require senior management to adopt strategies that focus on both current success and to invest in those activities that will promote a competitive advantage for future success. One widely recommended technique for improving one's competitive position is “outsourcing” (Maiga and Jacobs, 2004). Many managers view outsourcing as the only way to keep a business competitive into the twenty-first century. Effective transport services have become a critical issue for companies' performance. The highly competitive environment along with customers' demands for tailored products and services has forced companies to continuously evaluate, improve and reengineer their transport operations. These operations have a noticeable contribution in companies' efforts to meet customers' expectations. Their outcomes, such as place convenience, waiting time convenience, delivery time convenience, and after sales convenience, are easily visible and assessable by the final
customer and consequently delineating its purchasing behavior. The close relationship between transportation and customer service dictate that companies handle their transport services function prudently so as to receive its full potential benefits (Razzaque and Sheng, 1998).

In the past large organizations, both public and private, were able to achieve significant cost and differentiation advantages (Porter, 1980) through complex organizational structures, systems, and processes. Following the tradition of classic organizational design, departments delivered functional support for operations carried out in much the same way year after year. Such configurations grew into organizational ‘pyramids’ where strategic information coalesced and was crafted into more specific tasks and goals. Outsourcing has become one of the major strategies that companies are adapting to remain competitive in the current dynamic environment and achieve a competitive advantage over other businesses

1.1.1 Concept of Outsourcing

Outsourcing is the process of contracting an outside company to provide a service previously performed by staff. In many cases, outsourcing involves a transfer of management responsibility for delivery of service and internal staffing patterns to an outside organization. Subcontracting, contracting out, staff augmentation, flexible staffing, employee leasing, professional services, contract programming, consulting and contract services are all terms which refer to outsourcing. Outsourcing is the contracting out of a business function to an external provider (Overby, 2007). In this sense, two organizations may enter a contractual agreement involving an exchange of services and payments

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and
effectiveness improvements (Ellram, 1997). Outsourcing assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. Focusing on the core activities ensures collective learning especially on how to co-ordinate diverse production skills and integrates multiple streams of technologies. Outsourcing is seen as a means through which a business condition or problem can be alleviated in a manner that is more efficient or effective than in-house performance of logistics functions. Cognitive motivation involves careful analysis of alternatives or a well-thought-out corporate policy indicating that outsourcing is the best path for the company (de Boer, Gaytan, and Arroyo 2006).

1.1.2 Transport and Supply Chain Logistics

Transport is the most fundamental and obviously necessary component of any logistic system. In virtually all cases products must be physically moved from one location to another if a transaction is to be completed and transportation is often the component accounting for the highest percentage of the total cost of logistics. From logistics management standpoint the overriding issue facing the firm is choosing the optimum mode of transportation to meet customer service demand. A few of these points to put into consideration include; should the firm use its own carriers/common carriers; what are the different rates available; what specific transportation services are offered; how reliable are various common carriers and what mode of transport are competitors using (Overby, 2007).

With the changing economic scenario, factors such as globalization of markets, international economic integration, removal of barriers to business and trade and increased competition have enhanced the need of transportation. It is one of the most important infrastructure requirements
which is essential for the expansion of opportunities and plays an important role in making or breaking the competitive positioning (McIvor, 2000). Transport volumes in Kenya remain much less than those in the developed countries. Kenya has still to go a long way in strengthening its transportation network. The countries transportation network suffers from several inadequacies and, in particular it has little resilience to deal with unforeseen demands. Transportation, like all industries is largely influenced by information and communication technologies with the focus being on knowledge of customer needs and value added services. Surface transport is provided by the Road and the Rift valley Railways (primarily for carrying low value bulk commodities). In Kenya road transportation is preferred for cargo movement, where flexibility of routing assumes importance. It facilitates door-to-door delivery, overcoming unnecessary delays which normally take place in the other modes of transportation.

The Transportation industry sector comprises a wide range of service providers, covering all modes of transport – air, road, rail, sea – as well as related services such as warehousing, handling, stevedoring and finally value added services like packaging, labeling, assembling, etc. Because of the diversity of the sector in Kenya the infrastructure group has defined three key market segments that it concentrates on: Roads, Ports and Airports, Rail and Infrastructure.

Supply Chain Logistics deals with the transfer of goods from source of supply to the place of consumption by customer at the right time, cost, place, quantity and quality (Overby, 2007). Brown and Wilson (2005) defines supply chain as ‘the management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole’. Thus supply chain involves procurement, conversion,
storage, distribution, wholesale and retailing until delivery of value to final consumer. Modern supply chain systems definitions should include after sales service and customer feedback.

Although Supply Chain management is interchangeable confused with the logistics, Christopher (2005) mentions that supply chain management is a wider concept than logistics because supply chain management covers not only the processes on a single entity but include other entities processes in the entire supply chain to meet end users demand since it is the end user demands that are met. Christopher (2005) suggests that the most appropriate name for supply chain would be ‘demand chain’. This is in agreement with Hussey and Jenster (2003) who noted that supply chain activities are demand driven. On the other hand Logistics is essentially a planning orientation and framework for flow of products and information through a business. Logistics synchronizes procurement, production, sales and distribution with demand. Christopher (2005) defines logistics as the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows) through organization and its marketing channels in such a way that current and future profitability are maximized through cost effective fulfillment of orders (Christopher, 2005). From this definition, logistics is that part of the supply chain process that plans, implements and controls the efficient flow and storage of goods and services and related information from the point of origin to point of consumption in order to meet customer requirements. It is therefore evident that logistics enhances corporate competitiveness and increases corporate value by fulfilling customer satisfaction and minimizing inventory holding and stock out costs.
1.1.3 DHL Supply Chain (K) LTD

The Company started its operations in Kenya in 1995 when then Tibbett and Britten Group was invited by Unilever Group to offer logistic solutions to its Kenya subsidiary, East Africa Industries Limited now Unilever Kenya Limited. This was a strategic move by Unilever Group to have one global logistic solution provider. In 1998, Tibbett and Britten (K) Ltd negotiated and won the BAT Kenya and East Africa Breweries Limited contracts thus expanding its client base. This prompted the company to open branches in Tanzania and Uganda where these clients also operate. The branches now operate as independent units. The list of clients continues to expand as most manufacturing and even telecommunication entities appreciate the value add services provided by the company. The current number of clients is ten among them Unilever Kenya Ltd, East Africa Breweries, BAT and Safaricom Kenya

DHL is acronym of Dalsey, Hillblom and Lynn who founded the DHL Company in 1969 as a document courier between San Francisco and Honolulu. Deutsche Post World Net (DPWN) acquired 51% of DHL in 1999 and remaining 49% in 2002. In 2004 Exel group acquired Tibbett and Britten group and the company changed to Exel Contract Logistics (K) Ltd. Exel group was later acquired by DPWN in mid 2005. Dr. Klaus Zumwinkel, chairman of the group board appreciates the size of integration of Exel and DHL as the largest of its kind to date in the logistics industry (Deutsche Post World Net Annual Report 2006). After this acquisition the company’s name changed to DHL Exel Supply Chain (K) Ltd and most currently to DHL Supply Chain Kenya Ltd

DHL is a brand that carries the business of international mail and logistics and claims to move the world. It has three sub brands namely DHL Express, DHL Global Forwarding and DHL
Supply Chain. The first brand concentrates on international mail services while the second one on freight logistics. The last brand offers tailor made solutions to contracted customers. These include inbound logistics, distribution, warehousing, sales order processing and even customer care. These three DHL sub brands are represented in Kenya by individual companies but they work together to fulfil customers’ service requirements. It is evident that DHL establishes long term relationships with its clients. This is supported by the Unilever Kenya Limited and East Africa Breweries relationships that started in 1995 and 1998 respectively. The company provides a mixture of 3\textsuperscript{rd} party logistics (3PL) or physical logistic solution and 4\textsuperscript{th} party logistics (4PL) or intellectual service model. To handle transport the company keeps a pool of sub contractors and own vehicles which range from three, seven, ten, thirteen and thirty tonne truck capacities. This study concentrates on outsourcing of the transport services by DHL Supply Chain and seeks to find out why it has subcontracted part of transport to different transporters. In Kenya the business brand is run by DHL Supply Chain (K) Limited.

1.2 Research Problem

The growth in outsourcing over the last two decades has been unprecedented and today many firms use outsourcing (Taylor, 2005). However, despite its growing emphasis, the result is still vague and an unexplained puzzle (Jiang and Qureshi, 2006). Thus, the uncertainty remains whether outsourcing is a myth or a reality from the perspective of organizational performance. Outsourcing has been adapted widely in the world as a strategy to gain competitive advantage. Companies are increasingly seeking outside firms to perform activities previously conducted in house in order to achieve time, process and cost advantages. Such outsourcing makes sense for firms that lack the necessary economies of scale, finances, skills or technology to perform certain functions quickly and efficiently. Also many firms seek third party providers in order to focus on
their own competencies (Saunders’1994). Ensuring that an organization can compete effectively in the marketplace is one of the principal tasks of management. In an era of transformational change, Huselid (1995) argue that as other sources of competitive advantage have become less important, what remains, as a critical differentiating factor is the organization, its employees and how they work.

When DHL started its operations in Kenya in 1995 with only the Unilever Kenya business, the entire transport service was outsourced to transporters who previously worked for Unilever. At that particular time it did not own any fleet owing to the fact it was the first time it was setting foot in Africa and the large capital base required. It has continued to outsource over the years amid a myriad of problems. The transporters sometimes refuse to give their trucks unless rates are increased citing increased costs. Rates can only be reviewed upon agreement with the client and this depends on a certain formula agreed at the inception of the contract. It factors changes in fuel price, inflation and forex. Sometimes the client takes time to implement the changes and this affects the DHL-transporters relationship. Some transporters withhold their trucks from routes deemed unprofitable opting for the lucrative ones. This affects service delivery. Pilferage is also another problem encountered when truck drivers collude with highway thieves to steal client goods. If this continues for a while the client might terminate the contract citing high losses. Insurance also take time to compensate the losses. Following these problems encountered with outsourcing, is it still beneficial to outsource?

Recent studies done in the area of outsourcing include: Chanzu (2002) who studied a survey of business outsourcing practices among private manufacturing companies in Nairobi and found out that Outsourcing gives the organizations the opportunity to have better services and the
possibility to achieve technological improvements and, although cost savings in staff and technology are generally seen as very important, they do not emerge as priority reasons for outsourcing in the present study. Kirui (2001) concentrated on outsourcing of logistics activities in a case study of BAT Kenya and found out that third party logistics providers are ahead of manufacturing companies that operate logistics departments on quality implementation and improvement issues in logistics services. Kamau (2006) researched on a survey of outsourcing of accounting services in firms listed on the NSE and found out that seventy three percent of the firms had practiced outsourcing of accounting services between 2001 and 2005. Wambui (2008) did outsourcing of distribution logistics as an operation strategy for East African Breweries limited found out that EABL has made drastic changes from the traditional resource mobilization and operational mode to become a dynamic, cutting edge of change leader worth benchmarking by other firms. It has also changed the basic products by adding new features and way of doing business as well as its operations. Other studies done in the area include; Motari (2002) who did outsourcing of logistics. The practices of medium and large Kenyan manufacturing firms and Kaur (2001) who researched a survey of the outsourcing of human resource management services among manufacturing firms in Nairobi . As observed above, the studies conducted on outsourcing of services by various organizations have not considered the extent, benefits and challenges which a supply chain company that has branches worldwide encounter. This research will therefore seek to identify the extent of outsourcing of transport services and the benefits and problems associated with outsourcing in DHL supply chain. This problem statement leads to the following question: what is the extent of outsourcing of transport services and the benefits and problems associated with outsourcing in DHL supply chain?
1.3 Research Objectives

The study had two objectives:

i) To establish the extent and benefits associated with outsourcing transport services in DHL Supply Chain.

ii) To establish the challenges associated with outsourcing transport services in DHL Supply Chain.

1.4 Value of the Study

The study will be beneficial to various stakeholders; This study will be an instant source of information to DHL Supply Chain management as it will be able to evaluate the benefits vis a vis the challenges of outsourcing of the transport services and whether it is still beneficial for the company to continue outsourcing its transport services or it should just do it on its own. The study will help managers evaluate the logistics outsourcing dilemma in terms of quality management and quality service.

Other supply chain logistics companies operating in Kenya will also benefit from this study. The report acts as a source of information regarding best practice in outsourcing. They will be interested to learn from the DHL Supply Chain experience and will not have to ‘reinvent the wheel’. The findings of the study will provide practical value for other organizations confronted with the decision of whether or not to outsource services in their organizations.

The policy makers can obtain knowledge of the service industry dynamics and the appropriate strategies and therefore they can obtain guidance from this study in designing appropriate policies that will regulate the industry. To the academicians the study will contribute to the existing literature in the field of strategic management in general and outsourcing in particular. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, levels of outsourcing, benefits and challenges of outsourcing.

2.2 Theoretical framework of Outsourcing

The outsourcing process is a complex structure consisting of numerous activities and sub-activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process. It is a common knowledge that each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. From its occurrence, the outsourcing has been approached by different theories. This creates confusion among the researchers of the outsourcing phenomenon. Various authors identified significant number of theories that could explain the outsourcing phenomenon (Gotttschalk and Solli-Saether, 2005).

2.2.1 Transaction cost Theory

According to this theory, transaction costs are the reason behind different forms of organising economic activity. The two ends of a continuum regarding how to administrate business are markets and hierarchies. Transactions and transaction costs differ between different governance structures in business relationships. Basically, these so-called transaction costs can be assigned to
four different classes: search costs, contracting costs, monitoring costs and enforcement costs (Mclor, 2005).

Transaction costs represent “friction in the market” or “cost of using the price mechanism”. Aubert et al. (2004) basic rule states that when the marginal costs of using markets (transaction costs) are higher than the costs of running a firm (management costs), the transaction should be organized within the firm and vice versa. The reasons behind transaction costs are transaction difficulties. These are bounded rationality, opportunism, uncertainty and complexity, small numbers, information impactedness and asset specificity. Based on transaction cost theory, when a firm has already integrated its operational functions, the decision to outsource such functions to the market should be made if it is necessary to create or protect firm value.

Complex supply chains and networks may hide the problem of analyzing the actual unit cost accumulation. For example, the lowest price supplier in a certain phase of a supply chain may cause a significant cost increase in other phases due to non-optimal activity structure. Therefore, the activity-based costing (ABC) method should not be limited to single phases of a supply chain, as is too often the case in outsourcing; the total unit cost accumulation in a supply chain should be covered (Kulmala, 2003).

2.2.2 Agency cost Theory

According to this theory, an agency relationship is present whenever one party (the principal and the business process outsourcing client) depends on another part (the agent and the business process outsourcing service provider). This theory is concerned with resolving two problems that can occur in agency relationships (Eisenhardt, 1985). The first arises when the goals of the business process outsourcing client and the service provider conflict, and it is difficult or
expensive for the client to verify what the service provider is actually doing. An example could be that the client organization wants to reduce the process operating costs but the service provider wants to maximize its profits. The second is the problem of risk sharing that arises when the client and the service provider have different risk preferences. This problem may arise in business process outsourcing because of the different attitudes of client and service provider towards the use of new (improved during transition) process design using new technologies. The agency theory assumes that goals, self interest and risk preferences diverge between the business process outsourcing client and the service provider, but it gives little attention to the cooperative aspects of social life. It is criticized because it assumes social life is a series of contracts and ignores the existence of social and authority relationships in economic transactions (Spencer, 2005).

2.2.3 Resource-based Theory

According to resource-based theory, organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner (Krim, 2003). This theory emphasizes that resources internal to the firm are the principal driver of a firm's profitability and strategic advantage (Barney, 1991). It rejects traditional economic assumptions that resources are homogeneous and perfectly mobile. Instead, it argues that resources are heterogeneously distributed across firms and are imperfectly transferred between firms (Barney, 1991). Barney (1991) categorized resources into three groups: physical resources such as plant, human resources and organizational resources. Resources enable a firm to conceive of and implement strategies to improve its efficiency and effectiveness (Daft, 1983). Organizations can obtain above-normal returns if they can use their existing resources to sustain competitive advantage by exploiting opportunities in the market or
neutralizing threats from competitors’ strategic resources. Resources might be imperfectly imitable if they involve unique history, causal ambiguity, or social complexity Barney (1991). Similarly, resources are non-substitutable if another organization is not able to implement the same strategies by using alternative resources.

The resource-based view of the firm provides one of the most powerful frameworks for explaining the reasons for outsourcing (Gilley and Rasheed, 2000). This approach suggests that an organization must invest in the activities comprising its core competencies and outsource the rest (McIvor et al., 1997). The exchange of organizational routines and skills between the company and the specialist can give it the competitive advantage since their combined capabilities can generate additional rents. In this sense, outsourcing certain operations that do not generate core competencies can generate additional rents for the business when performed by a specialist supplier that has an advantage in those operations.

2.2.4 Relationship Theories

This theory proposes that inter-organizational relationships are a means of understanding how firms can gain and sustain competitive advantage. Dyer and Singh (1998 pg. 18) argue that it is possible for organizations to combine resources in unique ways across organizational boundaries to obtain an advantage over their competitors. They define relation rent as “a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners”.

Relational rents are possible when the alliance partners combine, exchange, or invest in idiosyncratic assets, knowledge and resources/capabilities. The relational view argues that the firm can develop valuable resources by carefully managing relationships with external entities including suppliers, customers, government agencies and universities. Therefore, a firm can gain and sustain competitive advantage by accessing its key resources in a way that spans the boundaries of the firm (Saxena and Bharadwaj, 2007). Competitive advantage can be embedded in a set of relationships across the boundaries of the firms, rather than residing inside an individual firm. Relational theories are important for the study of business process outsourcing, as the clients and the service providers that make relation-specific investments and are able to combine resources in unique ways to generate relational rents, can gain competitive advantage over the business process outsourcing clients and service providers that are unable to do so.

2.3 Levels of Outsourcing

2.3.1 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-buy 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 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.

2.3.2 Strategic Outsourcing

Strategic outsourcing 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 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.
2.3.3 Transformational Outsourcing

Transformational outsourcing is commonly used to redefine the business (Linder, 2004). It is a collaborative, risk- and gain-sharing relationship among the organization and its service providers to drive enterprise transformation and achieve significant business process improvements. It enables an organization to retain leadership position, build sustainable competitive advantage and generate highest value for an organization. Some issues addressed by transformational outsourcing are good governance and maturity of business process knowledge. The levels of risk in strategic and transformational outsourcing are higher than tactical form, but are commonly shared with the outsourcing partner. Tested risk mitigation plans, high-security levels, mature project management skills and proven business continuity plans need to be put in place before an arrangement can begin in this direction.

2.4 Benefits of Outsourcing

There are various benefits which can be associated with outsourcing. Some of them include:

Cost efficiency remains the primary explanation for the development of outsourcing. Firms evaluate outsourcing to determine if current operation costs can be reduced and if saved resources can be reinvested in more competitive processes. Some researchers contend that an important source of cost reductions is the outsourcing firm’s access to economies of scale and the unique expertise that a large outsourcing vendor can deliver (Anderson and Weitz, 2006). Since these outsourcing contract receivers are typically servicing many clients, they often achieve lower unit costs than can any single company. Specialist outsourcing vendors can also afford to invest more in new technologies and innovative practices than can many outsourcing contract-granting firms (Alexander and Young, 2007). Specialists in payroll processing, for example,
would typically handle this task for a number of companies, thus spreading fixed costs and achieving economies of scale. Because such specialists deliver only this service, they have the focus needed to identify areas that are susceptible to improvement and the knowledge needed to act successfully on that awareness (economies of skill).

According to Nohria and William (2003) to be a steady winner, a company must increase its productivity by about twice the industry's average. There are a number of studies that focus on explaining the relationship between productivity growth and outsourcing. Abraham and Taylor (2004) find that firms “contract out” services with the objectives of smoothing production cycles and benefiting from specialization. Contracting out production of goods and services to a firm with competitive advantages in terms of reliability, quality and cost are emphasized by Perry (2006). The cost reductions due to differences in labor costs lead to outsourcing and positive changes in labor input, and output produced is altered by profits and productivity growth. Outsourcing not only results in a shift of labor but also exacerbates the productivity differential between outsourcing contract-granting firms and outsourcing contract-receiving firms (Siegel and Griliches, 2002).

Traditionally, when business is booming, the temptation is to hire more staff, build a new factory or warehouse, and bring more of the business “in-house,” where firms hope to better control costs. When used properly, outsourcing can boost profitability in many ways. After a firm enters outsourcing agreements, fresh value may come from an outsourcing contract if it provides for good complementarities between the outsourcing contract-granting firm's and the contract-receiving firm's capabilities; if it allows the contract-granting firm to stay abreast of fast-changing technologies; and if it allows the contract-granting firm to draw on the results of
capabilities it could not develop itself (Bryce and Useem, 2003). A firm's value can also be enhanced when management attention is more focused on strategic issues and less on daily operational problems or organizational conflicts (Alexander and Young, 2007). One means of evaluating whether the outsourcing contract can create or protect firm value is to assess the capital market's reaction to the outsourcing decision (Hayes et al., 2000).

The very reasons a firm wants to outsource certain tasks – because they are complex, expensive, low efficient and difficult – make them hard for the outsourcing vendor too. If the outsourcing process is not preceded by careful strategic planning and thorough risk assessment it may result in considerable financial loss, decreased shareholder value, damaged company reputations, the dismissal of senior management, and in some cases the destruction of the business itself. The awareness of the possible risks incurred when outsourcing will enable decision makers and stakeholders to make informed decisions and draw contingency and mitigation strategies. Management needs to assess and evaluate the risks and their impact at strategic, tactical and operational levels in a consistent way (Ward and Griffiths, 2001). However, a risk may be buried deep in an outsourcing contract and not noticed. Even after an agreement has been signed, many companies are canceling outsourcing agreements, renegotiating agreements, or hiring their own staff to provide in-house services once again (Kliem, 2008).

2.5 Challenges of Outsourcing

Inappropriate or increased use of outsourcing, often as a result of lack of competitiveness, has meant that many companies enter a stage of decline that can leave them without the capabilities and skills necessary to compete (Bettis et al., 1992). Outsourcing can play an important part in the decline of a country since organizations can find themselves pressured, both individually and
corporately to improve costs and profits, by the financial control that large diversified industries exercise over businesses with a lower-than-corporate-average profitability. This situation can lead to a company opting to outsource activities that may lead to a loss of competitive advantage.

However, when the influence of services on competitive advantage is weak, less control is required, because the company does not run any great risk by outsourcing the service as there can be no loss of competitive advantage. At an intermediate level, the question is not whether to make or buy, but how to attain the desired balance between supplier independence and incentives and purchaser control and security. The services at this level have some influence on competitive advantage and cannot be handed to just any provider; the firm has to maintain strict control over strategically critical relationships with its suppliers by forming strategic alliances or special agreements that do not damage their competitive advantage. An organization’s culture develops through the social interactions that occur within organizations, through formal and informed socialization practices, rituals, myths, symbolism, the personalities of leaders, organizational history, artifacts and humour and play at work (Diamond, 1993).

Moreover, Prahalad and Hamel (1990) state that better company performance comes from focusing on the resources that provide the core competencies. Those authors suggest that short-term success comes from prices and product attributes, but long-term competitiveness is based on the core competencies, which is obtained from collective learning by the organization. Addressing the strategic outsourcing decision based on resources and capabilities implies an in-depth understanding of the core competencies on which future competitive advantage can be built (Bettis et al., 1992). The core competencies must be directly linked to the desires and needs of the customer.
An organization’s sourcing strategy needs to be consistent with competitive conditions and the development of competitive advantage (Quinn and Hilmer, 1994). The short-term implications of the sourcing strategy can be assessed by use of Porter’s (1980) model of industry analysis. The analysis shows the effectiveness of the sourcing strategy in meeting the structure of the industry, but in a number of ways it is a static analysis that does not explore the implications of the strategy for resource leverage and hence development, the effects of (seasonal) demand variation upon the company’s use of manufacturing and shop capacity, nor the ability of the strategy to respond to the longer term consumer and competitive changes that come to change the structure of an industry.

Strategic outsourcing involves recognition of certain significant risks to the organization if carried out inadequately and without the above-mentioned assessment of resources. One important risk is the possible loss of differentiation in the service, which, when outsourced to a supplier from whom another customer also acquires it, becomes easily imitable, and the possibility of gaining any competitive advantage from it is lost. Therefore, the organization must develop specific, idiosyncratic relationships that enable it to generate relational capabilities and rents. Along these lines, Rothery and Robertson (1996) consider that companies outsourcing key functions or functions central to their business must preserve the means to establish policy and direction as well as monitor delivery of the service and control the supplier. Depending on the extent to which these services can be controlled, companies can opt to outsource more strategic services as long as there are more capable suppliers.

According to Perry (2006) questionable efficiency when services are outsourced, either because of the risk of suppliers reducing quality to compensate for low margins arising from the lack of
barriers to entry, or because of excessive interest in economies of scale, leads to the organization’s distrust of suppliers. Another disadvantage is the possible loss of autonomy and control, since, when a service is outsourced, its management passes into the hands of an outside supplier, risking supplier inability to provide the services in the required quantity and/or quality. In this respect, only day-to-day operation and management should be released, and never strategic service management or planning. Another drawback of outsourcing is the possible loss of long-term competitive advantage stemming from lost capabilities and skills needed to compete. Moreover, outsourcing may erode the organization’s potential for organizational learning, especially in the services necessary to develop the core business and competencies (Lei and Hitt, 1995). Overdependence on a supplier may make it difficult to create knowledge and transfer it to the different company functions or departments. Consequently, for a company to maintain short-term leadership, it must continue to perform the critical parts of the value chain and acquire the non-key parts (Chesbrough and Teece, 1996).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the proposed research design, data collection and the techniques for data analysis that was used in drawing conclusions and possible recommendations. Kothari (1990) defines research methodology as a way to systematically solve the research problem. In ascertaining the outsourcing of transport services in the unit of study, DHL Supply Chain (K) Ltd, an in-depth understanding of the organization, its interaction with the defined variables and its effect would be imperative for appropriate analysis and conclusion.

3.2 Research Design
The study was modeled on a case study design. Kothari (1990) defines a case study as a powerful form of qualitative analysis and involves careful and complete observation of a social unit be it a person, family, cultural group or an entire community and/or institution. The study focused on outsourcing of transport services at DHL Supply Chain (K) Ltd and the benefits and challenges it encounters in doing so. The results are expected to provide an insight in understanding how the organization uses outsourcing as a strategic tool.

The study used a case study as a strategy research in order to understand or explain the phenomena, which is effect of outsourcing strategies, by placing them in their wider context, which is the specific company within the supply chain logistics industry. The reason for this choice is based on the knowledge that case studies are the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships and also they provide a holistic understanding of the phenomena (Kitay and Callus, 1998).
3.3 Data Collection
The study used primary data. Primary data was collected through a face to face interview by the researcher. An interview guide was used to collect data on the outsourcing strategy being used in the organization. It provided a guide on the key areas to focus on and also to aid in creating a platform for discussion with the respondent.

The interviewees consisted of the Country Manager, Finance Manager, Managed Transport Services Business Unit Manager, Fleet Manager and the Transport Planning Manager. These respondents are involved in decision making on the need to outsource its transport services. Secondary data was collected from organization’s documents such as annual reports, strategic plan and end term evaluation.

3.4 Data Analysis
The data collected was qualitatively analyzed by use of content analysis technique which is a systematic qualitative description of materials of a study. The information was analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy. The content analysis technique was used because it assists in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trends.

A content analysis technique was used to generate and categorize items for comparison with the interview results from the managers of the outsourcing firm. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2005). It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that are to be used in the analysis will be effects of outsourcing strategies. The content data analysis is preferred given the required
information was qualitative in nature and requires an in-depth analytical understanding in ascertaining the extent of outsourcing transport services at DHL and the benefits and challenges the company encounters in outsourcing these services
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
The research objective was to establish the extent and benefits associated with outsourcing transport services in DHL supply chain and to establish the challenges associated with outsourcing transport services in DHL Supply Chain. This chapter presents the analysis and findings with regards to the objective and discussion of the same.

4.2 Respondents Profile
This section of the interview guide wished to establish the targeted respondent’s academic as well as professional qualifications. In addition, their work experiences were also to be established. From their academic qualification backgrounds as well as work experience, the researcher will be able to assess their capacity to answer ably questions on the benefits and challenges associated with outsourcing transport services. The respondents comprised of the Country Manager, Finance Manager, Managed Transport Services Business Unit Manager, Fleet Manager and the Transport Planning Manager. The researcher interviewed all the intended respondents thus resulting in 100% response rate. Three of the respondents had master’s degree while another respondent had university degree and post graduate diplomas and the other respondent had attained post graduate diploma level. All the respondents were occupying management positions and this suggests that all the respondents were well versed with the policies and operations of the company and were involved in outsourcing decisions.

The respondents indicated that they have worked in the company for a period ranging between four years and thirteen years with majority of the respondents having worked for over ten years.
The duration in which the respondents have been holding the current position varied from one year to six years. Despite this, the respondents have been in the organization for a long time and understand the benefits and challenges of outsourcing in the company and thus the response can be relied upon. The respondents indicated that they cannot change their current duties given a chance due to various reasons which include being happy with their current work, ability to learn a lot in their respective positions, loving their work, nature of work being dynamic with new challenges daily and rewarding, able to meet with new people and interact with them frequently, dealing with different information systems thus increasing knowledge on systems, providing an opportunity to give creative solutions to the client by being innovative in performing duties, performing a key function in the organization, being a quality service provider in the industry with state of the art facilities, equipment, systems and people thus providing value add to the customer, handling a big portfolio which is the whole Kenya business, having a strong and dedicated team that supports their work and it also gives them an opportunity to interact with many professionals who share in their financial ideals thus enhancing the sharing of ideas.

**4.3 Extent of outsourcing transport services**

This section of the interview guide sought to establish the extent to which DHL has been outsourcing its transport services. The respondents indicated that the company has outsourced transport, canteen, security and clearing and forwarding. This enables the company to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements. On the duration they have been outsourcing transport services, the respondents indicated that they have been outsourcing the transport services since nineteen ninety five and this coincides with the time in which the company started its operations in Kenya and thus the
company has outsourced the services since its inception. The company outsourced the services in order to reduce cost of investment, reduce operating costs, reduce risk by transferring to transporters, concentrate on core business, reduce risk exposure to changing technology and/or changing buyer preferences, reduce lead times up to the final customer, cut down on capital expenditure, give more value add to the client, meet client demands with fluctuating volumes, meet client demand for specific type of vehicles, reduce the business operating assets as this normally attracts a charge from the group, reduce loss of transit damages to be borne by outsourced transporters, expand easily and get additional clients, reduce the handling of the goods and thus cost of transit damages and reduce risk of investing in a country for the first time.

Organizations use different criteria when evaluating the company to outsource services to and in the case of DHL, the criteria used was size of the fleet which must be five and above, condition of the fleet which should be roadworthy, ability to abide by the required health and safety conditions, well trained drivers, commitment to abide by DHL terms and conditions, healthy cash flow, more than five years’ experience in the business, having a representative who will deal with coordination and handling of documents, vehicles should meet the legal requirements on transportation of goods, the subcontractor should demonstrate a trustworthy and consistent past performance, vehicles should be fitted with safety equipment and features, staff should be of high integrity and well trained to deal with distributors, the prevailing internal requirements and the projected future client demands. The services offered to the company were within their expectations and this enabled the company to focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. The company does benchmarking through the company and client standard expectations.
4.4 Benefits associated with outsourcing of transport services

This section of the interview guide aimed at establishing the benefits which were associated with outsourcing of transportation services. The respondents noted that outsourcing of transport services led to decreased operational costs by twenty percent as the company was able to transfer some fixed costs (such as payroll or labor productivity and materials) to variable costs, reduce employee employment by fifty percent (drivers and mechanics) and reduce vehicle running costs by ten percent. Costs for operating resources and investments of fixed infrastructure can be reduced step-by-step after the services have been outsourced. Then the payment to the contractor would convert the fixed costs into variable costs. They unanimously agreed that the decrease in labor and operating costs is based on a contractor's experience to perform or provide a certain service more efficiently and effectively.

The company achieved increased productivity through faster turnaround times which reduced by three hours, decreased Vehicle Off Road time from 15% to 10% as the transporters want their trucks to be allocated jobs, greater efficiency in achieving tasks for instance, decreased turnaround times at site by one hour and at distributor outlets by two hours, working closely with the individual transporters to meet client requirements, increased fleet size by twenty percent to handle client volumes and different vehicle capacities enhanced their ability to produce and transport more, reduced costs for the outsourced transport company through purchase of fuel and insurance in bulk by twenty percent, the company benefited from economies of scale, where the gains were passed to subcontractors who were able to reduce their operating costs and increase fleet size from a minimum of three to five, being able to have additional clients from one when the company started operations in Kenya to ten to provide the transport services and reduction in
the fixed cost per case by sixty percent delivered through the introduction of a transport planning system that schedules and optimizes deliveries based on available resources.

Profitability is arguably the most important criterion of evaluating the performance of a firm. Outsourcing of transport services in the company resulted to profitability as the use of independent contractors provided the company with the flexibility to hire help only when they need it and only for as long as they need it, it enabled the company to have various experts while it may not pay for them to “own” that person, firms can “rent” their expertise without adding to their payroll and enables the company to have additional facilities through leasing to serve short term needs and avoid long term investment and this enables the company to reduce another cash drain and minimize the need for additional facilities.

4.5 Challenges of Outsourcing

This section of the interview guide aimed at establishing the challenges of outsourcing the company encountered. On this area, the respondents did note that the company’s business outsourcing strategy matched with its overall company’s strategy as the overall strategy is the basis for making business outsourcing company, while the outsourcing arrangement is in the overall strategy for specific strategic initiatives. The company's overall strategy not only determines the business of home-made/outsourcing decisions, but also the outsourcing of the object, outsourcing model and supplier choices.

The nature of inputs required restricted the choice of outsourcing strategy as the organization cannot get the services required, it sometimes becomes difficult to get a subcontractor with a large size of fleet, most transporters would tend to have the same fleet size of thirteen tonnes yet different fleet sizes are required, the volumes of clients keep fluctuating and in seasons of low
volumes the subcontracted transporters do less trips which fail to cover their operating fixed costs, the subcontracted transporters may not consistently meet the key operating standards required by the customer, since the drivers are not employed by DHL but the subcontracted transporter they become dishonest and pilferage goods, high capital requirements for purchase of vehicle assets to meet demand across the country business with a minimum of two million shillings per truck, high cost of information systems for vehicle tracking, fleet management and distribution planning, creating opportunities for value creation to the client that may not be properly handled by the subcontracted firm and information collection from the market is limited.

The management of the company takes seriously how to select the most suitable supplier as the choice of outsourcing provider business process outsourcing strategy in the development occupies a more important position. The outsourcing vendor selection is very difficult as once the decision-maker makes mistakes, the enterprise will face greater management problems. The choice of an outsourcing provider should ensure that the objectives are achieved through the potentiality of the outsourcing provider like quality, transaction price, delivery time, technical capacity, service levels and satisfaction of outsourcing in terms of potential suppliers’ evaluation. Clearly, outsourcing, vendor evaluation and selection capability is the enterprise, a key supplier of the blind pursuit of low-cost outsourcing which could damage the quality and ultimately affect the market performance.

Since outsourcing is a sector in the market transactions and vertical integration in the middle of the form, vendors and outsourcing suppliers actually formed a principal - agent relationship, outsourcing providers have more than the vendors on the quality of products and services, cost and other information, leading to asymmetric information. In addition, the partners ideas and
cultural differences, ineffective communication mechanisms are factors that may cause the failure of outsourcing. Therefore, to strengthen the management of the process of outsourcing is necessary, in the company this has been achieved through having a department that deals with subcontracted transporters, having contracts with the subcontracted transporters with clear terms and conditions of operations, having service level agreements with subcontracted transporters that are reviewed with transporters monthly, regular inspection of subcontracted vehicles, taking subcontractors through a validation process before being contracted, having quality management system requirements, on-site inspections or verifications, conducting interviews for subcontractors drivers, purchase of insurance and tracking systems through DHL, having a dedicated DHL staff to deal with subcontractors and approving transport suppliers through different levels of management before they can commence working/receive payment for work done.

The core functions of the company were not outsourced as focusing on core competences ensures that the job becomes more meaningful for the employees. The core competency perspective is useful in prompting serious consideration about the functions which are truly cost-effectively done in-house, and those which could be outsourced, without any loss to future requirements in expertise. It is less useful when some of the functions are core, but some or most of the tasks involved could be outsourced, as it would be cheaper to do that. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise will be more vital than the ownership of capabilities. Shareholder value in the company did not decrease as a result of outsourcing as the management of the company was more focused on strategic issues and less on daily operational problems or organizational conflicts.
4.6 Discussion of the Findings

The study has expounded on how DHL has employed outsourcing of services as a source of competitive advantage in its operations. The findings of the study was that in the present day cut-throat competitive advantage, a firms capacity to gain competitive advantage in its operations are not only found from the products and services that it deals with but from those resulting from capabilities that are not easily replicated by competitors. In addition, an organization should only concentrate with the offering of services that it is good at and in situations whereby it has some limitation in form of efficiency and effectiveness, then the firm should consider outsourcing the services. The services outsourced should yield superior results than that if the same was sourced in house.

The findings found out that by the organization outsourcing some of its services, it has been able to maintain an advantage in the offering of its services and at the same time realize improved level of customer satisfaction. This means that for an organization to maintain its competitive advantage there is need to consider both internal and external activities since it is the same resources that will generate the necessary advantage. This finding is similar to that advanced by Barney (1986) while postulating the resource based view theory, in which it was pointed that in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors and that this superiority will come from both internal and external sources. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear. Thus the firm's resources and capabilities together form its distinctive competencies ((Grant, 1991).
The outsourcing strategy creates competitiveness if the services offered are both efficient and efficient. As a result it is important that the service provider automates the operations such that the speed of service delivery and reliability of the services can be expected by the consumer. In addition, it is expected that if the service is outsourced, it should become a significant strength or capability to the organization. This finding of the study supports the study done by Harland and Knight (2005) in which they noted that the outsourcing must be sustainable for at least four years to come. As a result of outsourcing at DHL, the organization has been able to differentiate its services and done better in the services it offers than the competitors which has brought about a competitive advantage the organization (Porter, 1985).
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction
This chapter presents a summary of the key findings of the study as well as the conclusions, recommendation for further research and the limitation of the study.

5.2 Summary of the Findings
The study established that some of the respondents had university degree with others having master’s degree while another respondent had attained post graduate diploma level. All the respondents were occupying management positions and this suggests that all the respondents were well versed with the policies and operations of the company, and involved in outsourcing decisions. The respondents have worked in the company for more than four years with majority of the respondents having worked for over ten years and thus they understand the benefits and challenges of outsourcing in the company. The respondents indicated that they cannot change their current duties given a chance due to various reasons which includes being happy with their current work and still have a lot to learn in their respective positions.

The study revealed that the company outsourced transport, canteen, security and clearing and forwarding and provides other services efficiently and effectively to the satisfaction of its customers. The company has been outsourcing transport services since its inception in the country in nineteen ninety five in order to reduce cost of investment, reduce operating costs, reduce risk by transferring to transporters, concentrate on core business, reduce risk exposure to
changing technology and/or changing buyer preferences, reduce lead times up to the final customer, cut down on capital expenditure, give more value add to the client, meet client demands with fluctuating volumes, meet client demand for specific type of vehicles, reduce the business operating assets as this normally attract a charge from the group, reduce loss of transit damages to be borne by outsourced transporters, expand easily and get additional clients, reduce the handling of the goods and thus cost of transit damages and reduce risk of investing in a country for the first time.

The respondents indicated that the criteria used by the company when evaluating the company to outsource services to was the size of the fleet, condition of the fleet, ability to abide by the required health and safety conditions, well trained drivers, commitment to abide by DHL terms and conditions, healthy cash flow, more than five years’ experience in the business, having a representative who will deal with coordination and handling of documents, vehicles meeting the legal requirements on transportation of goods, the subcontractor demonstrating trustworthiness and consistent past performance, staff being of high integrity and well trained to deal with distributors, the prevailing internal requirements and the projected future client demands. The services received by the company were within their expectations and this enabled the company to concentrate on other activities which they have not outsourced.

The benefits which were highlighted by the respondents as resulting from outsourcing of transport services included the decrease in operational costs, increased productivity, increased flexibility as it presents the company with the opportunity to avoid the constraints of their own productive capacity in meeting changes in the volume of sales, increased focus upon a set of core activities and reduction in the functional scope of the organization, enabling the development of a more focused organization capable of increased responsiveness to market change. The
complementary use of outside resources can also provide opportunities for enhanced leverage of the organization’s core resources. Outsourcing of transport services also resulted in increased profitability as it enabled the company to have various experts while it may not pay for them, firms can “rent” their expertise without adding to their payroll and enables the company to have additional facilities through leasing to serve short term needs and avoid long term investment and this enables the company to reduce another cash drain and minimize the need for additional facilities.

The company’s overall strategy was matched with the business outsourcing strategy; however the company encountered challenges in getting an organization with the required services, getting a subcontractor with a large size of fleet, most transporters would tend to have the same fleet size yet different fleet sizes are required, the volumes of clients keep fluctuating and in seasons of low volumes the subcontracted transporters do less trips which fail to cover their operating fixed costs, the subcontracted transporters may not consistently meet the key operating standards required by the customer, since the drivers are not employed by DHL but the subcontracted transporter, they become dishonest and pilferage goods, high capital requirements for purchase of vehicle assets to meet demand across the country business, high cost of information systems for vehicle tracking, fleet management and distribution planning, creating opportunities for value creation to the client that may not be properly handled by the subcontracted firm and information collection from the market is limited.

The company selects the suitable supplier seriously as the problems of poor selection are high and they base their selection on factors like quality, transaction price, delivery time, technical capacity, service levels and satisfaction of outsourcing in terms of potential suppliers’ evaluation. The company has a department that deals with subcontracted transporters and ensures that all the
issues pertaining to the contract are adhered to by the subcontractors in order to achieve the targeted objectives.

5.3 Conclusions

In assessing the extent of outsourcing in DHL, the company has been utilizing external service providers for several years. With a relatively high commitment to the usage of contract service providers, and signing of contracts with duration longer than one year, these users would be likely to continue or even increase their usage. The company is satisfied with the work of the external service providers, as this has led to positive developments within the organization. With this high current level of satisfaction, there is substantial maintenance of outsourcing in the near future due to the input measures, which are important determinants of the decision to outsource activities in an organization.

The benefits realized after the implementation of the outsourcing decision have further explained the relatively high satisfaction level of the users and hence, the positive development of the company. Improved service quality levels, productivity, profitability, decreased operational costs and enhanced flexibility were the main benefits realized by the users after outsourcing, which greatly satisfy their driving forces initially. In deciding whether to continue the cooperation with an external service provider, the motivation to outsource must be adequately satisfied by the contract service provider. The main driving forces are cost savings and customer satisfaction, which could also explain why service quality, the price offered by the external providers, and past experience are the main criteria used by the company for the selection of the most suitable service provider.
5.4 Limitation of the Study
The study adopted a case study in which only one organization was studied. It would however be advisable if the study covered many other organizations in the same logistic industry to validate the present findings with other organizations. In addition, the study interviewed only senior managers in the organization who were actually involved in the formulation of the outsourcing services at DHL and will probably give a more positive effect of the strategy and more economical on the weaknesses of the strategy than give a more balanced results of the outsourcing strategy. However, despite the foregoing limitations, it is not expected that the results of the study will be invalidated in any way.

5.5 Recommendations
The study found out that the company outsources some of its services in order to improve the available process in many aspects. However, outsourcing is not easy, and it needs to be well planned and organized. It is very important to assess and identify the factors that are involved before an organization decides to outsource some functions. In some cases, outsourcing could cost the organization more than the in-house resources; therefore a detailed analysis should be performed.

The study established that the benefits of the company outsourcing were reduced costs, increased productivity, increased profitability and efficiency. It is recommended that the management of the company should ensure that the company achieves maximum benefits as a result of outsourcing while at the same time taking into consideration the risks which are involved. The study found out that the company is faced with various challenges when outsourcing its transport services. It is therefore recommended that the management of the company comes up with
strategies which would ensure that the company is not faced by similar challenges whenever they want to outsource some of its services.

5.6 Recommendations for further research
The study confined itself to DHL Supply Chain (K) Limited. This research therefore should be replicated in other supply chains and the results compared so as to establish whether there is consistency among the companies on the transport outsourcing strategy.
REFERENCES


APPENDIX : INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

1. To establish the extent of outsourcing transport services in DHL Supply Chain.
2. To establish the benefits associated with outsourcing in DHL Supply Chain.
3. To establish the challenges associated with outsourcing in DHL Supply Chain.

Background Information on the interviewees

- What is your highest level of education you have received?
- What current position in the organization do you hold?
- How long have you been in this organization?
- For how long have you been holding the current position?
- Would you change your current duties if given a chance? Why?

Extent of outsourcing transport services in DHL

1. What facilities have you outsourced in your organization?
2. For how long have you outsourced the transport services?
3. What inspired you to outsource the transport services in your organization?
4. What criteria did you use to conclude the company to outsource the service to?
5. Are the services you receive what you expected or it is below the organizations expectations?
6. Do you do benchmarking to determine whether the company meets your targets?

Benefits associated with outsourcing of transport services

1. Did outsourcing of transport services lead to decreased operation costs?
2. Did the outsourcing of transport services lead to increased productivity?
3. How did you achieve increased productivity?
4. Did outsourcing of the services lead to organizations profitability?
Challenges of Outsourcing

1. Is the company’s business outsourcing strategy matched with its overall company’s strategy?
2. Which strategy did your company use?
3. How does the nature of the inputs required restricting the choice of outsourcing strategy?
4. Does the choice of outsourcing provider business process outsourcing strategy in the development occupy a more important position?
5. Does the company manager take seriously how to select the most suitable supplier?
6. What does the management of the company does to strengthen the management of the process of outsourcing?
7. Was the core functions of the organization outsourced?
8. Did outsourcing of the services lead to considerable financial loss?
9. Did the shareholder value decreased as a result of outsourcing?
10. How is company reputation after outsourcing? Did it damage the company reputation?