

**LOGISTICS OUTSOURCING PRACTICES AMONG TEA
PROCESSING FIRMS IN KERICHO COUNTY, KENYA**

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DECLARATION

I Declare That This Is My Original Work And Has Never Been Presented To Any Other University For Any Academic Credit Purpose.

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This Project Has Been Submitted For Examination With My Approval As University Supervisor.

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DEDICATION

To The Almighty God, My Wife Jane, My Children; Emmanuel, Caleb And Hope

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ACRONYMS

UTK	Unilever Tea Kenya Ltd,
WTK	Williamson Tea Kenya Ltd
KTDA	Kenya Tea Development Agency Ltd
BPO	Business Process Outsourcing
EDI	Electronic Data Interchange
I.T	Information Technology
JIT	Just in -Time
3PL	Third Party Logistics Providers
GDP	Gross Domestic Product
I.C.T	Information Communication Technology
4PL	Fourth Party Logistic
SBU's	Strategic Business Units

ABSTRACT

Logistics outsourcing is currently viewed as a globally accepted best business practice. Through outsourced logistics organizations can improve; customer service, cut down costs, minimize risk, increase competitive advantage and improve shareholder returns. As a result both outsourcing organizations as well as logistics service providers require relevant information on existing and emerging logistic practices and trends so as to make optimal operational and management decisions. In order to acquire such information a study was undertaken from among tea processing firms in Kericho, Kenya.

The study sought to determine logistics outsourcing practices among tea processing firms in Kericho County. The study surveyed the logistics outsourcing practices being used by the tea processing firms in Kericho by collecting primary data through self-administered questionnaires. Data was analyzed using descriptive statistics. The study found out that the firms use several logistics outsourcing practices with own or in-house transport being the most common. All the tea processing firms that were surveyed outsourced some of their logistics functions though at varying degrees. Logistics outsourcing among the tea firms was most prevalent in operations such as warehousing, fleet management, fleet operations, transport and distribution.

The study concluded that there exists a drive towards the use of logistics outsourcing as a strategy to reduce costs, to pursue core business activities, reduce risks, gain competitive advantage. The survey also established some of the challenges faced by the firms as they moved to outsource their business activities; these included loss of control of the activities, loss of employee loyalty, industrial unrests, switching costs, loss of information to competitors and resistance to change by the stakeholders.

CHAPTER ONE: INTRODUCTION

1.1 Background

The global nature of business has forced companies to recognize the critical role of back end operations of a logistics supply chain. As the firms focus on production, marketing, Human Resource Management and finance, greater attention is required to achieve customer satisfaction through efficient logistics (Watson and Pitt, 1989). Due to improved Information and Communication Technologies (I.C.T), logistics has become an integral part of e-commerce and e-business. Logistics is a source of core competency and a linking tool for attaining competitive advantage (Muller, 1993).

Emerging trends indicates that Logistics management has shifted from the traditional back end operation to a strategic boardroom activity (Stock and Lambert, 2009). These trends have come to the fore as a result of various reasons such as; Globalization which is making national economies more and more integrated into the Global economy, International trade which is expanding at an exponential rate, technological advancement has become an integrating force, informed customers who are demanding value for their money, marketers are experiencing competitive pressure and businesses struggling not only for growth but also for survival (Sople, 2011).

Logistics operations can be managed in various ways such as, in-house logistics management, ownership of logistics subsidiaries through acquisitions or takeovers of a logistics firm(s) and outsourcing of the logistics operations. Outsourced logistics takes the form of Third Party (3PL) services providers. Once a contract is entered with the 3PL, the 3PL takes charge of the outsourced function and becomes responsible for the outcomes (Sople,2011).

1.1.1 The Concept of Outsourcing

When a business function such as a task, a role or a process is contracted out to a third party (3rd Party) over a substantial period of time the same is referred to as outsourcing. The 3rd party then takes control of the function and takes responsibility of the functions success. The practice of outsourcing has resulted from various factors such as

liberalization of the economy, increased competitive pressure, shrinking budgets, downsizing (maintaining an optimal number of employees), cost reduction and improved customer service. An organization may choose to outsource all its operations or in part (Stock and Lambert, 2009). The major functions that organizations are outsourcing include; logistics management, Human Resource Management, Information Communication Technology, Marketing Management, Finance Health and safety, Cleaning, Catering and after sale service (Horne, 1989).

Outsourcing allows a company to concentrate on its core competencies, save money, increase flexibility and manage effective growth. Once the non-core activities are given to the experts to manage, the company is left with the task of managing its core activities. This will help the company to benefit from external expertise and technologies. If successfully managed, outsourcing will also help reduce the cost of doing business and benefit from the use of knowledge and technical resources of another organization. However, companies need to carefully consider whether the benefits of outsourcing a function outweigh the costs. The process of outsourcing will therefore need to be properly managed and monitored (Stock and Lambert, 2009).

Globalization of businesses is viewed as the most prominent driver of outsourcing (Sheffi, 1990) this can be attested by the growth of global markets and international outsourcing practices. The practice has since led to increased demands on logistics operations (Cooper, 1993). Other drivers of outsourcing are; improved productivity, mergers and acquisitions that require keeping assets away from the books, since the assets used are those of the service providers (Stock and Lambert, 2009).

Outsourcing is increasingly receiving great attention globally in a manner in which organizations, such as those in the agricultural and manufacturing industry can improve on customer service, reduce costs, minimize risk, increase competitive advantage and improve shareholder returns. Logistics outsourcing is being viewed as a strategic solution to improve service quality and reduce cost of important as well as non- core processes.

Using the strategic partnership or Third Party service providers, company's world over have been able to reduce costs, logistic assets and attained optimum lead times. A common practice today is for companies to form collaborative relationships with 3rd party service providers for knowledge based systems integration whose backbone is in Information Technology (Sople, 2011).

Before a firm commits itself to outsource any of its function or functions, it has to conduct a cost benefit analysis so as to assure itself of benefits of letting another firm to manage its portfolios'. Outsourcing practitioners recommend outsourcing of non-core business roles to 3rd party service providers who have expertise, the letting of the functions to experts will also free the business to focus on its strengths and future strategies, improve efficiency and customer service and gain competitive advantage (Stock and Lambert, 2009).

The major issues in outsourced logistics with third party logistics providers include but not limited to; switching costs, degree of control, human and electronic interface, tuning logistics services to the needs of channel members, degree of outsourcing and legal aspects of outsourcing (Sople, 2011), loss of control to third party services providers (Bowman, 1994). In environments where the use of information communication technology (I.C.T) is under-utilized, disconnects between the outsourcing firms and the third party service providers tend to hinder efficient and effective delivery of services (Gentry, 1993).

1.1.2 Logistics Outsourcing

The expression logistics originated from the Greek word *logistikos* and the Latin word *logisticus*, which is the science of computing and calculating (Sople, 2011). Philip Kotler defines logistics as the planning, controlling and implementing of physical flows of materials and finished goods from the point of origin to the point of use. In the army operations the art of logistics integrates the strategic, operational and tactical sustainment efforts within the theater, while scheduling the mobilization and deployment of units, personnel and supplies in support of the employment concept of a geographic combat commander. Logistics gained importance and popularity during the Second World War in

the army operations as a terminology of moving, people, supplies and equipment over the border. Today however, though not a core function for most organizations, logistics is considered as a major integrating operational tool for every business undertaking (Stock and Lambert, 2009).

Outsourcing of Logistics functions has diverse benefits and some of these include; responsiveness to customer demands, improved cost, enhanced quality and service delivery, reliability, creation of sound business relationships and a source of core competency and a connecting tool (Horne, 1989).

As a result of these effects organizations have since 1980 been quietly opting to outsource their operations to third party service providers, through strategic alliances and partnerships. These are “make or buy” decisions in logistics rather than in the manufacturing. This has been instigated by; increased competitive pressure, shrinking budgets, downsizing (maintaining an optimal number of employees), cost reduction and improved customer service level. Organization’s may choose to outsource all their logistics activities or in part (Stock and Lambert, 2009).

1.1.3 Tea Processing Firms, in Kericho County

Tea is one of the main cash crops and an export commodity that earns Kenya billions of shillings annually and hence a major contributor to the country’s Gross Domestic Product (GDP). The product is an economic booster to the livelihood of the people living in the county. The product has among other economic values contributed to wealth creation, employment opportunities, improvement of infrastructure such as schools, sports grounds, picnic sites and market centre’s among others (www.softkenya.com).

Kericho County is one of the forty seven counties within the Rsepublic of Kenya. The county has an approximate population of 758,339 people and houses five constituencies all of which fall within the tea production belt. These constituencies include: Ainamoi constituency, Bureti constituency, Konoin constituency, Belgut constituency and

Kipkelion constituency (Wikipedia). All these constituencies happen fall in the tea belt on the South Rift region of Kenya (www.softkenya.com).

Tea processing factories within the county are managed by the following four firms; Unilever Tea Kenya (UTK) Ltd, Finlay's, Williamson Tea Kenya (WTK) Ltd and the Kenya Tea Development Agency (KTDA) Ltd (www.teaboard.or.ke).

According to information obtained from the Kenya Tea Board website (www.teaboard.or.ke), The Kenya Tea Board regulates and controls the cultivation of tea; registers tea growers and management agents. It also licenses tea manufacturing factories and regulates and controls the method of manufacture. To date there are 101 licensed tea factories in Kenya. Kenya Tea Development Agency Ltd (KTDA) manages 62 of the factories and the remaining 39 tea factories are managed by other companies, 22 of the factories are located in the Kericho County (www.teaboard.or.ke).

The study background has highlighted broadly the general challenges faced by organizations in seeking to remain afloat and at the same time meet stakeholder demands. The study focus is on the practices, the drivers and the challenges of outsourced logistics among tea processing firms in the County of Kericho.

1.2 Statement of the Problem

Organizations have chosen various ways of achieving the objectives of cost reduction and eventually improving on the productivity and overall performance. The common strategies used to achieve this include; outsourcing, restructuring, staff retrenchment, asset reduction, mergers and acquisitions among others (Stock and Lambert, 2001).

Outsourcing of the logistics function is today viewed as; a means of cost saving, a tool to competitive advantage, a risk medium, a strategic competitive tool as well as a means to creation of synergistic partnerships and strategic alliances among firms (Stock and Lambert, 2001). In the past firms focused on "Win -lose" or arm length relationships, today however, firms are concerned about the wellbeing of partner firms. Rather the firms are practicing symbiotic relationships where all are beneficiaries ("WIN -WIN"

situation).

An increasing number of companies are outsourcing their functions, particularly in the non-core business areas. The tea industry is characterized by a large demand for logistics services given the perishable nature of tea and the demand for very high standards in handling and storage before and after processing. According to the Kenya Tea Board, tea manufactures and processors have to adhere to set standards failure of which their operating licenses will be revoked (<http://www.teaboard.or.ke>).

Tea processors in Kericho County are faced with similar challenges in the management of logistics for example in transportation of employees, raw tea as well as processed tea, storage, warehousing and shipment to international markets. Generally it is important to note the fact that tea plucking and processing is a delicate process. During tea plucking peak seasons, there is a big logistics problem both for the raw tea leaves, as well as the processed products. Outsourcing is therefore the strategic management tool to use as a means to cost reduction, improved service delivery, enhanced efficiency and effectiveness (<http://www.softkenya.com>).

A number of studies have been done on outsourcing; Kirui, (2001), conducted a study on competitive advantage through outsourcing of non –core Logistics Activities within the supply Chain of British American Tobacco, Kenya, Chanzu, (2002), undertook a study on “A survey of Business Outsourcing Practices Amongst Private Manufacturing Company’s in Nairobi”, Serem, (2002), A Survey of the Outsourcing of Human Resources Services by Banks in Nairobi, Komen, (2005), A Survey of the Extent of Outsourcing of Human Resource Functions by the Public Service in Kenya, Agure, (2006), Outsourcing of Human Resource Management Services Among Large Flower Firms in Kenya and Hussein, (2006), A survey of Outsourcing of Training Services by Commercial Banks in Kenya. However, no study has been done on this important sector of managing distribution, warehousing, storage and transportation of employees, goods and services. This therefore, makes it necessary for study to be conducted on this important operational linking tool.

This study therefore sought to establish logistics outsourcing practices among tea processing firms in Kericho County. The study also sought to address the challenges the tea firms face in the adoption of outsourced logistics operations and was to provide answers to the following questions; How is logistics outsourcing undertaken within the tea processing firms?, What practices lead to successfully outsourced logistics? and, what the challenges to logistics outsourcing in the tea industry?

1.3 Objectives of the study

The three research objectives were:

- i. To establish the drivers of logistics outsourcing among tea processing firms in KerichoCounty, Kenya;
- ii. To establish the practice of logistics outsourcing among tea processing firms in KerichoCounty, Kenya; and
- iii. To assess the challenges facing tea firms that are outsourcing their logistics operations.

1.4 Importance of the study

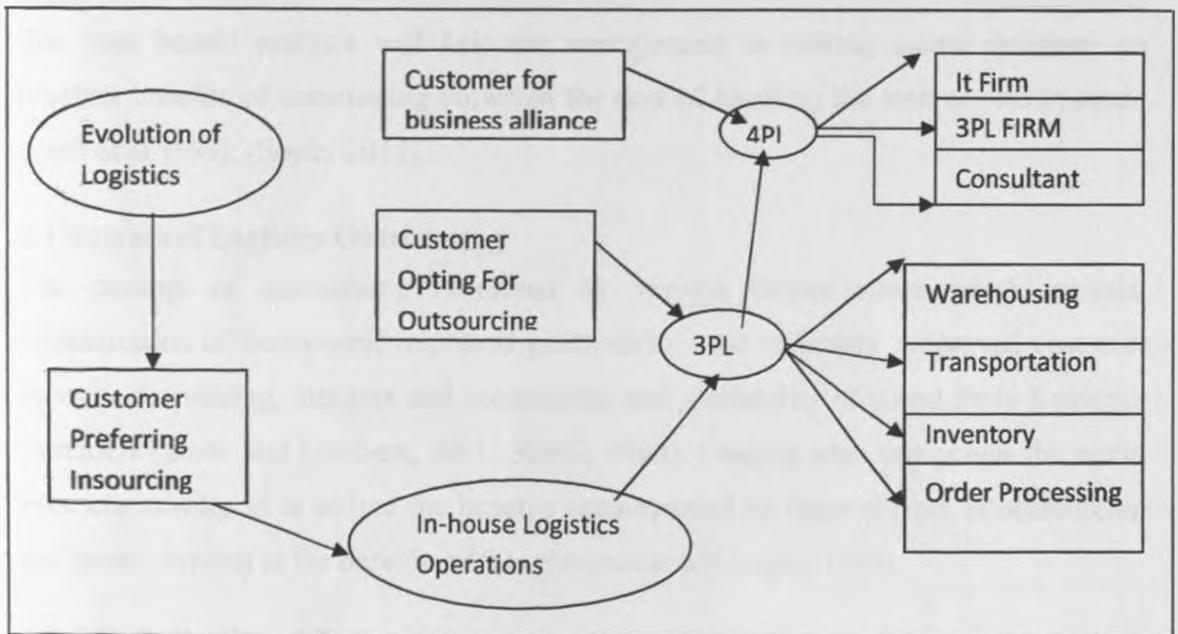
The findings of the study will be useful to various institutions and individuals as discussed below. Scholars and academicians will find the study results useful as a source of reference. Practitioners in agriculture may also find the study results useful as a tool for decision making. The government being at the Centre of policy and governance directives may use the study results in making such policies and governance. Third party logistics service providers may also find the material useful in assessing their competitive advantages and a chance to explore new business opportunities.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Various definitions of outsourcing have been made by different schools of thought such as, Lynch (1994); (Stock and Lambert, 2009) have defined outsourcing as the process whereby a company contracts its function(s) or role to a third party service provider. The Third Party Service provider thereafter takes control of the function and hence assume the obligation for the success of the function or role. The practice of outsourcing has resulted from various factors such as liberalization of the economy, Globalization, increased competitive pressure, shrinking budgets, downsizing, cost reduction and improved customer service.

Figure 2.1 Evolution of Logistics Outsourcing



Source (Sople 2011)

An organization may choose to outsource all its operations or in part Stock & Lambert, (2009); Konezny & Beskow, (1999); Burns et. Al., (2001) and Langley et. al. (2002). The major areas that organizations are outsourcing include; logistics management, Human Resource Management, Information Communication Technology, Marketing Management, Finance, Health and safety, Cleaning, Catering and after sale service.

According to Bradley (1994) “outsourcing is outsourcing” be it in logistics, Human Resources Management, after sales service, financial management and or any other function. He asserts that the ultimate goal for any process of outsourcing is customer satisfaction and cost reduction among the other benefits. He further states that those firms that aspire to make a difference in their functions should adopt best practices of doing business. Companies that are thriving are those that have taken the urge to let go the non-core functions within their operating cycles (Sople, 2011).

A successfully managed, logistics outsourcing function will help a company to gain in cost reduction, benefit from experience, technological resources and attain competitive advantage. Leaving the non-core functions to be handled by experts thereby realize the gains from innovation and hence avoid re-inventing the wheel. The gains will only be realized if a thorough cost benefit analysis is conducted prior to outsourcing the process. The cost benefit analysis will help the management in making sound decisions on whether benefits of outsourcing outweigh the cost of handling the task or role in-house (Lieb et al. 1993); (Sople, 2011).

2.1 Drivers of Logistics Outsourcing

The concept of outsourcing is driven by various factors some which include: Globalization of businesses, improved productivity, cost reduction, improved customer service, downsizing, mergers and acquisitions and availability of Third Party Logistics Providers (Stock and Lambert, 2001; Sheffi, 1990). Leading edge companies the world over are moving in to utilize the benefits accompanied by these drivers of outsourcing and hence thriving in the benefits of this phenomenon (Cooper, 1993).

2.1.1 Globalization of Businesses

Globalization of businesses is viewed as the most prominent driver of outsourcing (Sheffi, 1990). These effects can be attested by the growth of global markets and international outsourcing practices. Globalization of business activities has further led to increased pressure on the logistics practitioners as they seek to uphold the course of their business undertakings (Cooper, 1993 and Fawcett et al, 1993).

According to (Bradley, 1994), the effects of global markets have also led to complex supply chains hence involving more and more experienced logistics practitioners in international logistics operations. These practitioners bring with them specific know how on cross boarder trading, developed infrastructure of the destination countries which includes information and communication mechanisms as well as developed channels of distribution.

As a result of this global paradigm shift, warehouse, logistics and distribution Managers are crafting survival strategies of managing the non-core activities among them outsourcing of the logistics operations. The service offered by Third Party Logistics Providers (3PL) with synergistic expertise provides room to operations and logistics managers to direct the available resources to the core functions of the organization. Cobbling for example is a strategy which works well with non-competing logistic service seekers. The service is provided through a 3PL and caters for the needs of groups of customers who choose to operate in a similar channel of distribution. The practice helps companies to reduce wastage in storage and transportation. The operating costs of the cobbling partners are reduced through economies of scale and speedy customer service as a result of synergy among partners (Fawcett et al, 1993).

2.1.2 Improved Productivity

The second driver of outsourcing is improved productivity. Productivity improvement results from the level of specialization and expertise by the 3PL. As identified in studies in the United States of America (USA), companies outsource their services in order to improve customer service, efficiency and greater service integration, economies of scale and cost savings, access to competencies and global supply and solutions (Konezny & Beskow, 1999; Burns et al, 2001; Langley et al, 2002). A 3PL with the necessary logistics infrastructure, and expertise performs recurring activities that would have otherwise have been performed in-house in the long or short term with risk, gain and shared information.

The 3PL assumes the responsibility to improve productivity as a means to assuring the contracting firm that the benefits of outsourcing out-match those of in-house logistics management. This is according to a survey conducted with top 500 organizations in India which resulted to; cost reduction; improved return on assets; improved inventory turns; increased shareholder returns and improved customer service (Sohail, Bhatnagar and Sohal 2006).

Customer service is a measure of the effectiveness of a logistics system in creating time and place utility. Marketers strive to increase customer satisfaction through delivery of superior customer value which is a key element to logistics strategy. Transportation of materials from one point to another in logistics is not the only requirement to customer satisfaction but providing information, options and expertise will assist the customer in making a buying decision.

Outsourcing is a strategic tool with long term and far reaching implications from both the internal and the external environment. Faced with these aspects, it is critical for companies to have a thorough approach to outsourcing decision making and planning. This calls for well developed and managed processes, agreements and relationships. Managing the relationships poorly, however, courts disaster rather than benefits and economic excellence (Harps, 1998; Elmuti&Kathwala, 2000; Lonsdale & Cox, 2000; Armstrong, 2001).

2.1.3 Mergers and Acquisitions

Mergers and acquisitions are among the major drivers of logistic outsourcing. Mergers and acquisitions will enable a firm to expand its market share, channels of distribution, product portfolio, acquire or invest in strategic business units (SBU's) which will offer specialized service to the sister agencies as well as other industry players. According to Sople (2011), this is a Fourth Party Logistic (4PL) service. Further, Anderson Consulting Company states that a 4PL assembles and manages the resources, capabilities and technology in its own organization together with those of complementary service providers in order to offer a comprehensive solution in the entire supply chain of the partner organizations.

2.1.4 Technology and Innovation

Technology is a means to enhance business competitiveness and performance. Information technology helps in real time information processing and analysis. Robotics and automation techniques have enabled repetitive operations to be done with great speed and accuracy. The advancement of technology has been viewed as a major boost to transaction management. Manifold progress has been made in achieving effective and efficient logistic services.

Innovation has enabled firms to utilize modern logistics and communication concepts. Techniques such as e-Track have been used as a means to overcome problems such as dispatch delays, enhance information sharing between truck operators and management, estimating the arrival time of trucks, reduction of idle time, improved productivity reduction in turnaround time, reduction in wastage and enhanced quality in goods and service delivery (Bhakar, 2001).

The advent and popularity of other techniques such as Just in -Time (JIT) in conjunction with technologies like Electronic Data Interchange (EDI) have greatly contributed to the promotion of outsourcing practices (Trunick 1989; Goldberg, 1990; Sheffi, 1990; Stock and Lambert, 2001). JIT delivery, storage and logistical management are important in Production and the general supply chain operations. The benefits being realized have attracted institutions to the tenet of outsourcing as a means to gaining from supplementary external resources and innovations.

Studies in India have shown that after the liberalization of the Indian economy in 1991, entrepreneurial operations grew manifold. This attracted an influx of foreign investors whose target was to get a share of the untapped market. The trend resulted in an overheated competition across all sectors of the economy. In order to counter competition companies, started reviewing their business strategies so as to deliver value to their customers and gain competitive advantage. As a result most companies ventured into outsourcing of the non-core functions in partnership with experts who offered to bring efficient and effective operations (Sople, 2011).

2.1.5 Availability of 3PL Service Providers

Availability of 3PL service providers is a clear driver of outsourcing in that, various outsourcing firms can be linked to a consortium of consumers of third party service providers hence; gain the benefits at a reduced cost of developing or owning similar techniques. Firms that join such a league will be in a position to gain economies of scale as well as expertise from among the experienced members. Small firms will also have a chance to consolidate resources thereby benefit from the resulting synergies such as consolidation and bulk breaking among other benefits (Bradley, 1995).

The trend of using strategic partnerships in integrated logistics has now become an accepted practice in the industry. 3PL are external to the firm and provide one or more aspects of the entire service portfolio. The overall trend in the logistics outsourcing is moving in two directions; increase in the buyers of logistics services and increase in the extent of logistics services, Bingham, (1994).

2.2 The Practice of Logistics Outsourcing

Logistics outsourcing is increasingly receiving great attention globally in a manner in which organizations, improve on customer service, reduce costs, minimize risk, increase competitive advantage and improve shareholder returns. However, outsourcing of the logistics function is not necessarily a solution to all logistics problems and ought to be handled with due diligence so as to avoid problems in the provision of logistics and service delivery. As a result both outsourcing organizations as well as logistics service providers require relevant information on existing and emerging logistic practices and trends so as to make optimal operational and management decisions (Sople, 2011).

The logistics function is a key facilitator in the cross-functional effort towards supply chain integration. It is therefore, not surprising that concepts such as Supply-Chain Management (SCM) have now assumed strategic importance. In order to handle its logistics activities effectively and efficiently, a company may consider; to provide the function in-house by owning and carrying the necessary infrastructure and assets, or by acquiring and owning a logistics subsidiary (Candler, 1994), the firm can also outsource

the function and buy the service. Fourthly the company can practice both outsourced and in-house logistics operations (Maltz, and Ellram, (1997).

2.2.1 E-Outsourcing

E-outsourcing or electronic outsourcing is the delivery of the service electronically, usually through the internet. This range of business operations has continually become available due to the ever changing technological break-through. The benefits of using the electronic outsourcing are manifold and these include: cost reduction where consumers only pay for the services in use. This will lead to reduction in the cost of investing on equipment and staff training; Improved efficiency in service delivery by minimizing reliance on complex Information Technology (I.T) networks and or departments and access to commercial advantages such as improved communication with both service providers and customers. The same will enable organizational members to work in remote stations and to concentrate on value adding operations and critical business functions (Stock and Lambert, 2001).

2.2.2 Strategic Alliances and Partnership

Relationship marketing is the most recent step in partnered logistic outsourcing. The concept focuses on establishing close and long-term work relationships. This is similar to supplier tiers, which is a practice of partnership, where the first tier supplier works in a very close collaboration with the outsourcing firm by consolidating goods from other tiers. The first tier supplier has access to the entire supply chain of the outsourcing firm as well as the other tiers. The first tier supplier is at the Centre of communication between the outsourcing firm and the other tiers (Stock and Lambert, 2001).

For over two decades, organizations have been outsourcing their logistics functions to 3PL service providers and have also been examining the viability of Strategic alliances and Partnerships with these logistics practitioners. Historically, outsourcing relationships among shipping and logistics service providers have been adversarial. Today however, firms and logistics providers have reviewed their behavior from a “win-lose” situation to a gesture of “WIN-WIN” or mutual (collaborative) partnerships (Richardson, 1990).

2.2.3 Outsourced Logistics

Based on scholarly journals, trade publications and popular magazines, outsourcing of the logistics operations takes the centre stage in most organizations. Although its evolution is “one of the most widely discussed contemporary topics in the field of business logistics”, efforts to organize them in an integrated broad-based body of knowledge have so far been rather limited (Lieb, 1992).

A survey by Lieb and Randall, (1996) found that the top managers of third-party logistics companies perceived growing customer interest in outsourcing as the top industry priorities (Gooley, 1994). Outsourcing can contribute to profits by enabling users to gain competitive advantage, adding measurable value to products, enhancing customer service, assisting in opening new markets, and providing dedicated resources (Foster and Muller, 1990). Third party logistics providers can enhance value creation for customers leading them to become more competitive and profitable business through speedy and superior customer service (Daugherty and Pittman, 1995). Value creation involves the understanding of the energetic interaction within the customer’s supply chain.

3PL service providers have the ability to provide their clients with expertise and experience that would otherwise be difficult to acquire, or to have in-house (Byrne, 1993; Dillon, 1989; Goldberg, 1990; Richardson, 1993; Sheehan, 1989; Trunick, 1989). The expertise gained from working with other clients allows users to benchmark against other companies and may lead to opportunities to lower costs and improved customer service. Contracting logistics firms act as advisors and innovators and through the practice companies can gain than the former (Wood, 1993).

Use of contract logistics enables firms to spend more time pursuing strategic planning and management issues, and focus on their core business competency, rather than on logistics (Africk and Markeset, 1996; Lynch et al, 1994; Richardson, 1992; Saw, 1995; Sheehan, 1989; Trunick, 1989). Types of contract logistics vendors According to Goldsmith (1989), public warehousing may be the oldest form of outsourcing in logistics.

Later, Richardson (1992) added marketing, packaging, transportation, distribution, import

and export to this list. This is justifiable since third parties do have some role in determining where goods are stored, how they are packaged for shipment, and in choosing the best mode for transporting them to the customer (Hill, 1994). Since the third-party providers are also increasingly being utilized for value-added activities such as assembly and quality control (Fawcett et al, 1993) the list is, however, expanding. Some companies are not involved in moving goods at all: they sell software and consulting services that help their customers develop their own efficient transportation networks. Others handle chores such as paying bills and tracking costs of transportation for their customers. Many third-party logistics companies have been found to offer services such as logistics information systems, shipment consolidation, warehouse management/ operation, carrier selection, rate negotiations, fleet management/ operations, product returns, order fulfillment, customer spare parts, vendor selection and purchasing (Lieb and Randall, 1996).

Muller, (1993), proposes two types of contract logistics service providers, that is operations-based and information-based 3 PL vendors. He has since modified the classification scheme by suggesting the following types of vendors: Outsourcing of logistics functions, Asset-based vendors, provision of dedicated physical logistics services primarily through the use of their own assets, on average a truck, fleet or group of warehouses or both, Management-based vendors involved in offering logistics management services through systems databases and consulting services, often acting as a subcontracted traffic department, either for part, or all, of a client's business segments. These firms do not own transportation or warehouse assets. Integrated vendors are companies that own assets, trucks, warehouses and or a combination of both. Outsourcing of business activities or functions is a paradigm shift. (Chanzu, 2002), argues that management needs to shift from "arms length" business relationships (short term relationships) towards "WIN -WIN" or long-term, collaborative strategic relationships with external business partners.

2.2.4 Focus on Core Competencies

For companies to be able to survive in today's competitive markets, they must focus on their core competencies and adopt outsourcing as a strategic solution to improve quality of service and reduce costs of important as well as non –core processes. Using the strategic 3PL service providers, in integrated logistics, companies the world over reported gains such as cost reduction, logistic assets and order cycle time. Management of logistics roles in the present day organizations involves making decisions for the complete distribution of goods and services (Watson and Pitt, 1989) with a goal of maximizing value. Modern managers are aware that competitive advantage can be achieved from the delivery process as well as through the product Muller, (1991) & Foster, (1994).

According to a survey conducted by Lieb& Randall (1996), it was found out that the top executives of 3PL service providers perceived growing customer demand in outsourcing. The advent of logistics contracting role has become a motivation in drawing the attention of logisticians towards this astute move to outsourced logistics (Gooley, 1994). If well managed, Outsourcing can contribute to profitability by enabling the firm members to gain a competitive edge, concentrate on core business functions by adding value to products, improved customer service, venturing into new markets and providing quality resources Foster & Muller, (1990).

3PL service providers have the ability and responsibilities to enhance value creation for customers, leading them to more competitive and profitable production of goods and services, superior customer service (Byrne, 1993; Dillon, 1989; Trunick, 1989; Goldberg, 1990; Richardson, 1990; 1992 & 1993). The expertise gained from working with other clients allows users to benchmark against other companies.

2.2.5 The Role of I.C.T in Logistics Outsourcing

The Information Technology (IT) industry is playing a major role in logistics and supply chain management. Today the integration of logistics, which is complex exercise, is totally dependent on the support of I.T. 3PL logistics suppliers are providing logistics

solutions to their clients, based on their experience and domain knowledge that they have developed and acquired over many years in the logistics business. However, a new trend has emerged where the IT firms are providing logistics solutions built around domain knowledge provided by 3PL (Stock and Lambert, 2001). At the strategic or management level, companies lacking sophisticated information systems might look to outside sources for database management techniques used in forecasting or for handling the information flow loop (Richardson, 1990).

Leading companies in the USA believe that 4PL is a technology created by management and IT consultancy is a strategic and integrating tool. The genesis of this is collaborative relationships among various service providers and based on I.T as the backbone. It is a network arrangement that can be termed as a resource integration tool for outsourced logistics through ICT, (Sople, 2011).

Unlike the traditional methods that focus on the reduction in operational cost and asset transfer, 4PL works in the following ways; increase revenue, reduce cost, reduce working capital and reduce fixed capital Sople, (2011) & Ravi (2001).

Logistics outsourcing has a degree of risk, therefore companies must be careful when choosing to outsource and also during the selection of a service provider. The selection process will entail an in-depth survey, based on rational evaluation and choice. This is followed by an evaluation, based on a number of potential logistics outsourcing service providers who will be compared to choose the most suitable service provider. The Final step is the definition of the contract with the outsourcing service provider. This entails pricing considerations, technical requirements, service levels and penalties for a breach of the terms. The contracting parties will discuss the possible changes and potential problems and agree on solutions to the problem. The implementation of the process will then take effect (Gooley, 1994).

2.3 Logistics Outsourcing Challenges

Outsourcing of the logistics function is not necessarily a solution to all logistics problems and therefore the process ought to be handled with due diligence so as to avoid further

problems in the provision of logistics. The major challenges in outsourced logistics with third party logistics providers include but not limited to; switching cost, degree of control, human and electronic interface, tuning logistics services to the needs of channel members, degree of outsourcing and legal aspects of outsourcing (Sople, 2011).

2.3.1 Switching Cost

Outsourcing of the logistic operations leads to the reorganization of the existing assets to adapt to a new operating structure by the service provider. The re-organization will have an effect on; the management of the existing assets wholly or partly, deployment of the assets on lease to the service provider and or divesting the assets and fully switching to the usage of infrastructure offered by the service provider. Failure of the reorganization to pick up will result in a reverse of the forward switching process and will be costly and time consuming (Wood, 1993).

Switching cost involves high risk levels. Much as outsourcing of logistics reduces the logistic costs substantially. Switching cost over to another service provider or to the original system, in case of partnership breakup will cause bigger losses in terms of time in stabilizing the new system, fall in customer service below the customers' expectations level during the transition period and erosion of customer base due to an element of unreliability experienced in the service by clients (Bardi&Tracey, 1991).

Logistics and operation Managers need to put into consideration these predicaments, as consider the decisions to venture in logistic partnerships with 3PL providers. This will be a measure to caution in the event the process and implementation of logistic outsourcing takes effect.

2.3.2 Degree of Control

There is usually a fear of the unknown by staff and management of the loss of control over suppliers by the 3PL service provider, (Quinn, 1993 and Nai-Jing, 2006). The level of control of the operations by the parties has to be defined beforehand as desired by the end user. Direct control over the service provider's employees is not guaranteed.

However, the outsourcing firm has to ensure that services are provided in a timely manner and that information through designated channels of communication is well coordinated among the partners (Sople, 2011).

The question of control is quite a delicate and weighty risk to the partnership in integrated logistics operations. Due to the dynamics and scope of material and equipment handling by the staff of the partnering organizations information, materials and equipment management will pose a major challenge. Competitors may use the staff of the service provider to gather intellectual secrets. Control over quality of service may be lost, delivery schedules may be delayed, and material and equipment handling may be left with the mercy of the service provider (Sople, 2011).

At the inception of the partnerships the management of the partnering firms will need to have in place documented policy measures on dispute resolution. The level and means of arbitration will have to be agreed upon. Such a policy will come in handy in resolving contractual disputes among the partners.

2.3.3 Human and Technological Interface

Proper co-ordination through an intelligent interface among the partnering organizations will be essential in order to meet the common goals. Difference in work cultures among the parties may cause a mismatch in the level of empowerment of employees, efficient and flexible decision making, precision in operations, technologies used and access to confidential information. As such problems may arise from a mismatch of techniques being used at the outsourcing firm and at the service providers' organization. Managers should embark on developing proper mechanisms so as to boost, the morale of the employees affected by the outsourcing of the activities or functions that were initially handled in-house. Preparing the employees on the anticipated work related changes through training is a vital task for management during the outsourcing process (Bardi&Tracey, 1991).

A problem may arise out of the mismatch of technologies being used by the outsourcing firm resulting from the service provider. For example in developed countries 3PL service

providers may have expertise on such techniques as Electronic Data Interchange (EDI) but members of the outsourcing firm do not have the interface and knowledge of the same techniques. This will result a failure to achieve the intended goals by the partnering organizations. The same will amount into wastage, poor customer service, unsatisfied clients and staff and delayed service delivery Nai-Jing, (2006).

2.3.4 Tuning Logistics Services to the Needs of Channel Members

Service standards need to be enumerated in accordance with the needs of channel members, who also serve end users. Efficient channels of logistics management will play a major role as a key enabler, for firms to realize the benefits of outsourcing both channel and distribution management ought to work hand in hand for the effective and efficient supply chain (Lynch et al, 1994).

Meshing channel and distribution management requires effective and efficient coordination and an enabling environment. (Lynch et al, 1994), further asserts that there are four areas of interface between channel and logistics management; defining logistics standards as per the requirements of channel members, designing logistic programs according to acceptable standards, implementing the programs and monitoring the programs. The level of customer satisfaction expected by the clients may be difficult to attain given, the fact that the service provider is new to the channel members and that some channel members may take long to accept the change.

2.3.5 Degree of Outsourcing

Successful outsourcing requires a strong understanding of the organizations capabilities and future direction. Decisions regarding outsourcing are among the most strategic that can be made by an organization, because they address the basic organizational choice of the functions for which internal expertise is developed and nurtured and those for which such expertise is outsourced. Outsourcing based only on a comparison of costs can lead companies to miss opportunities to gain knowledge that might lead to the development of new products or technologies Nai-Jing, (2006).

Outsourcing can be undertaken to varying degrees, ranging from total outsourcing to selective outsourcing. Total outsourcing may involve dismantling entire departments or divisions and transferring the employees, facilities, equipment and complete responsibility for a product or function to an outside vendor. Selective outsourcing may target a single, time component that can be handled more efficiently by a 3PL (Sople, 2011).

A firm that ventures into outsourced logistics operations in full in part will be dictated by among others, the existing logistics infrastructure of the organization, the company's product portfolio, management policy for third party involvement and the anticipated benefits. This will have an effect on the existing facilities and the resources. The need to utilize or dispose off the existing resources may prove to be a daunting task to the partner firms. The decision to outsource all or some of the existing functions may require a gradual measure due to unforeseen implications to the organization members

2.3.6 Legal Issues of Outsourcing

Policy guidelines on reverse logistics need to be established in order to resolve the exercise and sales tax problems relating to rejected goods, goods returned or dispatched and return of goods during transit. Logistics outsourcing has had its own share of challenges in as far as legal aspects are concerned. A firm desiring to venture into outsourced logistics will require a policy framework from the government on the management of the process the Outsourcing Institute, (1998). Before venturing into outsourcing contracts with local or multinational organizations, it is necessary for the contracting partners to establish a policy framework to cater for legal issues regarding dealings within multicultural environments (Chanzu, 2002). Other policy documents required during and after the transition are dispute resolution mechanisms and contract termination procedures. These may take long to adopt by the members but should be in place at the inception of the contract.

2.3.7 Infrastructure

Many outsourcing firms lack the necessary technological infrastructure which is compatible with that of the clients. This may have a negative impact on the level of communication and information transfer between the partner organizations. In developing countries for example multinationals have had to re-design their internal logistics systems so as to fit in the environment. The benefits of a good technological investment may fail to add value due to lack a supportive external environment (Al-Turki&Duffua 2003).

Without a good infrastructure, the outsourcing process would be crippled if movement of goods from one destination to another becomes inefficient, more costly and prone to delays. Good port infrastructure has induced companies to outsource their transshipment hubs, international procurement centers. Hinterlands of sea ports have also grown to supply companies with bonded warehouses, free commercial zones has made it ideal for outsourcing of export based goods. Another upcoming initiative is the change in tariff duties replaced by goods and service taxes which would simplify trade and encourage the managing of the supply chain with the 3PL (Gupta & Ashok, 1992).

2.3.8 Security

Not all countries have in place the necessary legislation to regulate and protect the rights of individual or organization innovations or rights, such as the protection of intellectual property, company assets. Lack of assured security of company secrets and or rights may make it difficult for firms to choose business partners for the acquisition of logistics services (Guterl, 1996).

The companies that outsource their non-core activities must continuously monitor the activities of the 3PL service provider through established channels of communication. Studies conducted in India show that offshore clients are losing trust on Indian Business Process Outsourcing (BPO) because of cases of security breach. It seems that India outsourcing industry has woken up to the gravity of the situation. After the recent incidents of data theft at call centers, finally the Indian outsourcing industry joined forces to implement a number of security measures. The industry acknowledged that such

incidents would undermine the outsourcing expansion in India. The BPO firms in India have initiated a voluntary registry for call center employees. Data security and privacy have been seen as major barriers to global trade. Outsourcing companies in India are aware of this (<http://www.nextlevelpurchasing.com>).

2.4 Logistics Conceptual Frame Work

In a manufacturing enterprise, the business process starts with the flow of material from the suppliers to the manufacturing plant then to the customer through the distribution channel. The concept of logistics is based on the system approach. The flow of material from a supplier to the manufacturing plant and finally to the end customers is viewed as a single chain, ensuring efficiency and effectiveness in sequential activities to achieve the objective of customer satisfaction at a reduced cost (Foster and Muller, 1990).

These activities are to be managed as a system and not as functional areas of logistics, termed "logistics Mix" by Martin Christopher and they consist of: Information Flow; Order registration, Order checking and Order processing. Warehousing; Material storage, load unitizing and material handling, Site selection and network planning, Order picking and filling, Dispatch documentation. Inventory control, Material requirement planning and Inventory level decisions for customer service objectives. Packaging; for handling and damage prevention, for communication and for inter modal transportation, Transportation; Route planning, Mode selection and Vehicle scheduling (Sople, 2011).

In recent years, the following three forces have changed the perspectives on logistics: Globalization, Focus on supply Chain Management and Outsourcing of the non-core competency functional areas. (Stock & Ellram, 2009). Outsourcing has become an acceptable trend in business; Corporations have realized that doing everything by themselves does not result in effective and efficient use of scarce resources available to them. It is better to outsource the functional areas to an expert who can do their job at the least cost. Logistics is an area in which a majority of the business organizations have no

core competency and hence it needs to be outsourced for operating effectiveness and efficiency. (Nai-Jing, 2006).

Michael porter was the first to highlight the need for business organizations to understand that competitive success could only come through cost leadership or by offering differentiated product and services. The value chain activities of the firm can be categorized into primary activities consisting of inbound logistics; operations ; outbound logistics; marketing, sales and services; and support activities such as infrastructure, humanresource management, technology development and procurement. (<http://www.nextlevelpurchasing.com>).

Logistics delivers value to the customer through three logistical drivers: Inbound logistics-operations preceding the manufacturing and outbound logistics. This includes movement of raw materials and components for processing from suppliers. Process logistics-operations directly related to processing. This includes storage and movement of raw materials and components within the manufacturing premises per the manufacturing schedules. The inventory management stored materials and in process goods is part of process logistics and outbound logistics –operations following the production process. This includes warehousing, transportation, and inventory management of finished products(Al-Turki&Duffua 2003).

Logistics cost break-up in the above three categories shows a larger percentage in outbound logistics and in component wise, transportation covers the larger proportion. The total logistics cost as a percentage of the sales differs with product categories. For low unit value mass distributed products, the logistics cost may be 30-40 percent of the sales value, which in the case of high value engineering items may not exceed 5-8 per cent. With proper systems and controls, the logistical cost, which will be ultimately loaded on to the product and borne by the customer, can be reduced and benefits passed on to the customer by way of value addition through a combination of price , quality and service(Wood, 1993).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive survey method in determining the outsourced logistics practices among tea processing firms in Kericho County. Gay (1983) describes a survey as an attempt to collect data from members of a population in order to determine the status of that population with respect to one or more variables.

3.2 Population

The population of the study consisted of all the 4 tea processing firms and 22 Tea factories in Kericho County. These firms are concentrated in the entire county. The firms have a number of factories and can be classified under two main sectors; locally owned and multinationals. The list of the firms and the factories was obtained from the Tea Board of Kenya website (<http://www.teaboard.ke.org>) See appendix III.

3.3 Data Collection

The main tool for data collection was a self-explanatory structured questionnaire, which had both open and close ended questions. Target respondents were Heads of the major operational departments namely; General Managers, Logistics managers, distribution and warehouse Managers, factory Managers and their supervisors. Questionnaires were dropped and picked later from the respective firms and factories. Telephone follow ups were made in order to expedite the response process.

The questionnaires were divided into four sections; section A sought to collect information about the profiles of respondents and the organizations they represented while, section B, C and D sought to address aspects related to logistics outsourcing drivers, practices and challenges. A letter of introduction was issued to each respondent prior to the research. (See Appendix I for the introduction letter and appendix II for the Questionnaire respectively).

3.4 Data Analysis

After the data was collected, it was edited for completeness and consistency, descriptive data analysis was used to analyze the data. The method helped in explaining the logistics practices adopted by the tea processing firms, the drivers influencing the practice of logistics outsourcing and the challenges faced by the firms. Frequencies, percentages and proportions were used to establish the number of firms and factories practicing outsourcing.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents an analysis and the findings of the study. Accordingly it provides general information about the characteristics of the tea processing firms in Kericho County, Kenya; it focuses on logistics outsourcing practices, the drivers of logistics outsourcing and the challenges faced by tea processing firms in the county of Kericho.

4.1.1 Demographic Characteristics

Four tea processing firms and 52 tea factories were chosen to represent the entire population of tea processing firms in the County of Kericho. Out of these all the 4 tea processing firms and 42 tea factories responded respectively. This provided a 100% response rate for tea processors and a 76.47% response rate for the tea factories, hence providing an overall approximate response rate of 75% (see table 4.1) of the study population which was found to be sufficient for further analysis. The respondents were mainly General Managers, Logistics managers, distribution and warehouse Managers, factory Managers and their supervisors, they all indicated that they had served the organization for more than 10 years.

Table 4.1 Distribution of The Respondents

Name of Tea Firm/ Factory	Frequency	Frequency %
KTDA	2	66.7
Mogogosiek Tea factory	2	100
Kapkatet Tea Factory	1	50
Tegat Tea Factory	2	100
Momul Tea factory	2	100
Toror Tea Factory	2	100
Kapkoros Tea Factory	1	50
Tirgaga tea Factory	2	100
Rorok Tea Factory	2	100
Total	16	84.21%

Unilever Tea Kenya	2	66.7
Chagaik Factory	1	50
Jamji Factory	1	50
Kericho Factory	2	100
Tagabi Factory	1	50
Kimugu factory	2	100
Kimari Factory	1	50
Total	10	66.7%
Williamson Tea	2	66.7%
Changoi Tea Factory	1	50
Total	3	60
Finlay's	3	100
Saosa factory	1	50
Mara Mara Instant	2	100
Kymulot factory	1	50
Koros Factory	1	50
Kitumbe Factory	1	50
Chomogonday Factory	2	100
Changana factory	2	100
Total	13	76.47%
Grand Total	42	75%

Source: Researcher (2011)

4.1.2 Ownership Structure

A firm's decision to outsource its logistics functions may result from several factors or levels of management. The decisions may be as a result of the level of the firm's ownership, whether local or foreign owned or both foreign and locally owned. Strategic objectives may also impact on an organization to outsource its logistics operations (Stock and Lambert, 2001).

Respondents were requested to indicate the level of ownership of their tea processing firm whether, local or foreign owned or both foreign and locally owned.

Table 4.2 Level of Ownership of the Tea Processing Firm

Ownership	Frequency	Percentage
Foreign Owned	30	65.22
Locally Owned	16	34.78
Both Foreign and Locally Owned	0	0
Total	46	100

Source: Researcher (2011)

From the findings in table 4.2, 65.22% of the respondents indicated that their firms are fully foreign owned thus, pausing a likely hood of the fact that the firms were driven to logistics outsourcing by their international policy on the management of logistics function. 34.78% of the firms on the other hand reported that their firms were locally owned this, provided an impression that the firms are not are not influenced by any force to outsource their logistics function since the decision making organ is local. The respondents also indicated that non of the firms had both local and foreign ownership status.

4.1.3 Number of Years in tea processing Operation

Logistics outsourcing has a degree of risk, therefore companies must be careful when choosing to outsource and also during the selection of a service provider. The number of years a firm has been operating can influence its decision of whether to outsource its

logistics operations or not (Gooley, 1994). The table below provides a survey information obtained from respondents who were required to provide information on the number of years their tea processing firms have been in business.

Table 4.3 Number of Years in Operation

Number of Years	Frequency	Percentage
1-10 Years	10	21.7391
10-20 Years	2	4.3478
Over 20 Years	34	73.913
Total	46	100

Source: Researcher (2011)

The findings from table 4.3 above provide that 73.9% of the firms were reported to have been operating in the tea sector for more than 20 years while, 4.3478% of the firms were reported to have been operating for between 10-20 years and 21.7391% of them had operated for between 1-10 Years. This is an indication that they fully understand what is to be outsourced and what not to be outsourced. The experience that a firm has had in business may dictate its ability to make sound and effective outsourcing decisions as compared to a firm that has made logistics outsourcing decisions based on benchmarking information alone.

4.1.4 Number of Employees

In order for a firm that has outsourced its logistics function to realize the benefits of this bold and risky venture, it is expected to have an optimal number of employees in the logistics function or any other outsourced function in that matter (Stock and Lambert, 2009).

In this study the respondents were required to provide information of the approximate number of employees in the logistics function.

Table 4.4 Number of Employees

Number of Employees	Frequency	Percentage
0-50	0	0
51-100	0	0
Over 100	46	100
Total	46	100

Source: Researcher (2011)

From the study findings in table 4.4, 100% of the surveyed tea processors indicated that their companies had more than 100 employees in their businesses. This was a clear indication that as much as other indicators showed that the tea firms were practicing outsourced logistics, engaging a non optimal number of employees may not guide a firm to achieve its objective of cost reduction. However, the fact that the tea firms have more than 100 employees does not necessarily mean excess employees but an optimal number of employees is what matters.

4.2 Drivers Of Logistics Outsourcing

The concept of outsourcing is driven by various factors some which include: Globalization of businesses, improved productivity, cost reduction, improved customer service, downsizing, mergers and acquisitions and availability of Third Party Logistics Providers (Stock and Lambert, 2001; Sheffi, 1990).

The respondents were asked to rate the extent to which some listed logistics outsourcing drivers contributed to the firms decision to outsource its logistics operations. This was in a likert scale ranging from (1) Very Small Extent, (2) Small Extent (3) Some Extent, (4) Great extent (5) Very great Extent. Table 4.2 presents the views of the respondents in relation to what is driving the firms towards outsourced logistics operations.

Table 4.5: Logistics Outsourcing drivers

Drivers of logistics Outsourcing	Mean	Standard Deviation	Ranking
Outsourcing reduces overhead costs	3.6	4.54	1
Availability of third party logistics providers	3.4	4.41	2
Global best practices	3.3	4.37	3
Lack time to perform such activities	3.2	4.35	4
To avail more time for other activities	3.2	4.35	4
Globalization of business	3.2	4.35	4
Availability of a supportive infrastructure	3	4.18	7
Logistic activities are non-core to the firm	3	4.18	8
Government policy	3	4.18	8
Lack of internal expertise to perform logistic functions	2.8	3.75	10
Company policy at National/international level	2.7	3.36	11
So as to make use of technology and innovation	2.7	3.36	11
The availability of a partner to provide a better service	2.5	3.24	13
So as to Improve productivity	2.4	2.97	14

Source: Researcher (2011)

The research findings in table 4.5 above provided a standard deviation of 4.54 of the respondents who were in agreement of the fact that logistics outsourcing is driven by the urge to reduce overhead costs while, a standard deviation of 4.41 the respondents indicated that the availability of third party logistics outsourcing service providers has driven their firms to outsource their logistiucs operations. A 4.37 standard deviation indicated the likelihood that the respondents were in agreement that logistics outsourcing was an accepted best practice in the management of logistics. From a standard deviation of 4.35, the respondents believed that logistics outsourcing is driven by the need to create time for other business areas whereas a diviation of 4.35 of the respondents indicated that logistics outsourcing is a globally accepted business practice and that logistics

outsourcing is driven by the fact that outsourced logistics operations are more time is utilized in other business sectors. A standard deviation of 4.18 provided that the respondents were in agreement enabled their firms toutsource their logistics. A standard deviation of 4.18 of the respondents appreciated government support in the use of third party service providers on logistics. A 4.18 deviation of the respondents were in agreement that their firms lacked internal expertise to handle the logistics function , a deviation of 3.75 provided that the respoondents were contented that company policy at local and international level is a drive to logistics outsourcing. 3.36 standard deviation of the respondents agreed that the adoption of technology and innovation drove the firms to outsource logistics operations while, a 3.24 standard deviation of respondents were in support of the availability of a logistics partner. The urge to improve productivity was rated at a low standard deviation of 2.97.

(Cooper, 1993) asserts that logistics outsourcing is increasingly receiving great attention globally in a manner in which organizations, such as those in the agricultural and manufacturing industry can improve on customer service, reduce costs, minimize risk, increase competitive advantage and improve shareholder returns among other benefits.

4.3 The Practice of Logistic Outsourcing

In order to handle its logistics activities effectively and efficiently, a company may consider; to provide the function in-house by owning and carrying the necessary infrastructure and assets, or by acquiring and owning a logistics subsidiary (Candler, 1994), the firm can also outsource the function and buy the service. Fourthly the company can practice both outsourced and in-house logistics operations (Maltz, and Ellram, (1997). See Tables 4.6 and 4.7

Respondents were asked to rate the extent to which the listed logistics outsourcing practices impacted on firms decision to outsource their logistics operations. This was in a likert scale ranging from (1) Very Small Extent, (2) Small Extent (3) Some Extent, (4) Great extent (5) Very great Extent. Table 4.3 presents the views of the respondents in relation to what practices firms utilize as they embarked on outsourced logistics operations.

Table 4.6: Modes of Logistics operations

Logistics Outsourcing Practices	Mean	Standard Deviation	Ranking
Warehousing	3.5	4.71	1
Fleet Management	3.5	4.71	1
Fleet Operations	3.5	4.71	1
Transport	3.3	4.52	4
Distribution	3.1	4.31	5
Fleet Maintenance	2.4	3.87	6
Logistics Operations	0	0	7

Source: Researcher (2011)

Based on the foregoing results from table 4.6, the respondents in a standard deviation of 4.71 indicated that their firms have outsourced their warehousing, fleet management and fleet operations. A standard deviation of 4.52 of the respondents indicated that they have outsourced their Transport operations, while a 4.31 standard deviation of the respondents preferred outsourcing their distribution function. Fleet maintenance, warehousing and transport management are the least preferred outsourced functions with a 3.87 standard deviation.

Table 4.7: Logistics Outsourcing Practices

Practices of logistics outsourcing	Mean	S.D	Ranking
Have both an in-house logistics department	3.375	4.2	1
Hires logistics services during peak seasons?	3.375	3.9	1
Rely on logistics services used by competitors	3.375	3.6	1
Contracted a third part to manage its logistics services	3.125	3.5	4
Mergers and acquisitions	2.875	3	5
Owens a logistics subsidiary	2.875	2.9	5
Practice E-outsourcing	2	2.85	7
Strategic alliances with logistic service providers	0	0	8

Source: Researcher (2011)

In a likert scale of (1) Very Small Extent, (2) Small Extent (3) Some Extent, (4) Great extent (5) Very great Extent. respondents were requested to indicate their level of agreement with the above factors stating with the least accepted to the most accepted practice. The results of the survey indicated that most tea firms preferred (standard deviation of 4.2) to practice both in-house and outsourcing logistics practice, a 3.9 standard deviation indicated that the firms preferred hiring of logistics services during peak seasons and the use of logistics service providers used by competitors was a prevalent practice. Other practices that the tea firms utilized included contracting third party service providers as well as owning a logistics subsidiary to handle the same and mergers and acquisitions. E- outsourcing was reported as a rare preference for most tea firms while, strategic alliances with logistics service providers was not practised at all.

4.4 The Challenges of Logistics Outsourcing

Outsourcing of the logistics function is not necessarily a solution to all logistics problems and therefore the process ought to be handled with due diligence so as to avoid further problems in the provision of logistics. The major challenges in outsourced logistics with third party logistics providers include but not limited to; switching cost, degree of control, human and electronic interface, tuning logistics services to the needs of channel members, degree of outsourcing and legal aspects of outsourcing (Sople, 2011).

Respondents were required to rate in a likert scale the challenges faced by the tea processing firms in their endeavour to outsource logistics operations. As a result of this the respondents views are presented in the table 4.8 below:

Table 4.8: Logistics Outsourcing Challenges

Challenges of Logistics Outsourcing	mean	Standard deviation	Ranking
Loss of control on logistics functions	3.8	4.54	1
Industrial unrest	3.8	4.54	1
Disintegration of internal conflict	3.3	3.9	2

Loss of employee loyalty	3.2	3.9	3
Low quality of work	2.9	3.5	4
Switching cost	2.8	3.3	5
Information leakage occurs from service providers	2.6	3.2	6
Over reliance on external parties	2.6	3.2	6
Over reliance on service providers	2.4	2.8	7
There is loss of command on service delivery	1.8	2.6	8

Source: Researcher (2011)

From the findings in table 4.8, a 4.54 standard deviation of the respondents indicated that Loss of control on logistics operations and industrial unrests were the most prevalent of the challenges the tea firms were facing. Disintegration of internal conflict and loss of employee loyalty had a 3.9 standard deviation response rate in agreement. While a 3.5 standard deviation of the respondents reported that the quality of work also deteriorated as a result of outsourcing, a standard deviation of 3.3 on the effects of switching costs and information leakage as well as overreliance on third party service providers had low effects at a standard deviation of 3.2 respectively. Loss of command on service delivery was the least prevalent among the challenges reported by the respondents with a standard deviation of 2.6.

As an observation the major issues in outsourced logistics with third party logistics providers included; degree of control, Industrial unrest, Disintegration of internal conflict, Loss of employee loyalty, Low quality of work, switching costs, Information leakage occurs from service providers and over reliance on external parties.

CHAPTER FIVE: SUMMARY ,CONCLUSION AND RECOMMANDATIONS

5.1 Introduction

This chapter summarizes the research findings it also presents summary, conclusions and recommendations of the study. The conclusions were drawn from the findings of the study in line with the study objectives. The study sought to establish the drivers of logistics outsourcing, the practices of logistics outsourcing and the challenges faced by tea processing firms in Kericho County, Kenya.

5.2 Summary of Findings

The study findings may have long term implications for tea processing firms in the management of their logistics. Given the ever changing business environment and the global economic challenges facing businesses the world over. The tea sector just like any other business sectors has to embrace modern best business practices so as to survive. To do this there will be need to engage every available resource in the most optimal way so as to realize the ensuing benefits of logistics outsourcing. The major areas to consider among the tea processing firms are the driving forces to logistics outsourcing, the practices of logistics outsourcing and the challenges the tea firms face in the management of logistics operations.

5.2.1 Drivers of Logistics Outsourcing

The researcher sought to establish the drivers of logistics outsourcing among tea processing firms in Kericho County Kenya. After surveying and evaluating several tea processing firms and factories, it was found out that most firms have been driven to logistics outsourcing by the urge to reduce the cost of doing business, secondly the availability of third party service providers also motivated firms to outsource their logistics operations, thirdly outsourcing is viewed as a global best business practice; fourthly the urge to concentrate on core business activities. Globalization of business and availability of a supportive logistics infrastructure, fifthly logistics functions are non-core to the tea processing firms and the fact that government policies do not inhibit the

firms from adopting outsourced logistics.

Some tea processors also indicated that they do not have the expertise to handle their logistics activity and hence preferred to outsource the functions. Others indicated that the drive to outsource was part of their international policy, the need to take advantage of technology and innovation was also indicated as a drive by some firms to outsource their logistics operations. The drive to improve productivity was the least preferred driver to logistics outsourcing.

5.2.2 The Practice of Logistic Outsourcing

The results of the analysis clearly indicate the level of adoption of a logistics outsourcing practice among the tea processing in Kericho County Kenya. The results of the survey provided an insight on the extent to which the tea firms practice both in-house and outsourcing logistics practice. Hired logistics services during peak seasons and the use of logistics service providers used by competitors was a prevalent practice adopted by the tea processors, hence giving an indication of the level of logistics outsourcing practices being adopted by the tea processors.

Other practices that the tea firms have been utilizing included contracting third party service providers (3PL), as well as owning logistics subsidiaries to handle some specific tasks, mergers and acquisitions have also been viewed as potential strategic practices. E-outsourcing was reported as a rare preference for most tea firms probably due to lack of supportive infrastructure within the markets. Strategic alliances with logistics service providers was not reported to be a popular practice among the firms though this may be the practice of the future given the tea firms were not scared of sharing service providers. This may be an acceptable practice in the short term but once competition strikes the firms will begin to venture into strategic business alliances so as to curb the effects of business competition.

5.2.3 The Challenges of Logistics Outsourcing

In the middle of every success there will always be challenges, but the challenges must be viewed as positive indicators for continuous improvement. During the survey respondents

concluded that inidid logistics outsourcing is not without challenges. The challenges that were highlighted included; Loss of control on logistics operations and industrial unrests were the most prevalent of the challenges that were being faced by the tea processing firms. These were followed by disintegration of internal conflict and loss of employee loyalty. Respondents reported that the quality of work was found to be deteriorating , the effects of switching costs and information leakage as well as overreliance on third party service providers. Loss of command on service delivery was the least prevalent among the challenges reported by the respondents.

5.3 Conclusions

The study established that most of the tea processing firms in Kericho county were motivated by various logistics outsourcing drivers. These were evidenced among the tea processing firms and factories that responded. Other firms are however yet to appreciate the adoption of the same for the success of their businesses. Most of the firms reported that their main drive to logistics outsourcing was the urge to reduce cost while, others were motivated by the availability of outsourcing or third party logistic service providers.

Outsourced logistics practices are evident among the tea processors in the county of Kericho. The firms that were surveyed presented clearly that they have adopted some modern logistics outsourcing practices though at a small scale. The firms reported that the most prevalent practices amongst them were both inhouse and outsourced services. The firms also reported hiring of third party logistics services during peak seasons.

The survey established that the tea processors are faced by various challenges as they adopt outsourced logistics though the same was viewed as a means towards successful business and use of cutting edge best business practices. The major issues in outsourced logistics; included switching costs, loss of control, internal industrial unrests, loss of information to competitors, low moral among affected employees and reduced quality of work.

5.4 Recommendations

As much as the survey provided information on the practice of outsourced logistics among the tea firms, the management of the tea firms have to invest more on skill and knowledge acquisition on the management of the logistics function. They may in addition seek to invest more on research and development of stronger and longterm ties with the logistics service providers. When firms or individuals partner in any mutual understanding, they double their efforts with other accompanying benefits.

Objectively the challenges that the firms experienced in logistics outsourcing are a means towards continuous improvement. The tea firms need to appreciate the challenges that came along as a package of successful adoption to new ways of doing business. The unfolding events can be referred to as indicators to the successful implementation of an outsourced logistics practice. If progressively monitored and used as corrective benchmarks, implementating these logistics outsourcing practices and challenges will enable the tea processing firms to fully adopt outsourced logistics practices thereby achieve their key objective of cost reduction. The management of tea processing firms have to adopt current management skills and techniques.

5.5 Limitations of the study

The study was limited in scope by the fact that it only covered tea processing firms in the county of Kericho, ideally there would have been representative if it covered the entire tea sector in Kenya. The researcher faced some resistance from some of the respondents as they feared that the information they gave would be used by their competitors to fight them business wise. This was however, resolved through the issuance of the research certificate and explanation regarding the purpose of the research and the assurance that every information so obtained will be handled with uttermost confidentiality.

5.7 Suggestions for further study

The study has opened up a number of gaps that can be addressed in futher research, firstly the study covered tea processing in Kericho County, yet there are other tea belts such as Kisii and Nyeri, Kiambu, Muranga Embu and Meru which may require a study of

their own. Secondly there will be need for further research on the management of logistics outsourcing on the larger agricultural sector.

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APPENDICIES

APPENDIX I: LETTER OF INTRODUCTION

JULY, 2011

Dear Sir/ Madam,

RE: MBA RESEARCH PROJECT

I am a student at The University of Nairobi (UON), pursuing a Master of Business and Administration (MBA). I am undertaking a research project in partial fulfillment of the academic requirements. The research seeks to determine the extent of Logistics Outsourcing practices and the challenges facing tea processing firms in Kericho County.

Your company has been selected to form part of the study. I will be very grateful if you would spare sometime from your busy schedule, to respond to the questions listed on the attached questionnaire.

Your response will be treated with uttermost confidentiality. The findings of this research may be availed to you upon completion of the research if you so request.

Your assistance and co-operation will be highly appreciated.

Yours faithfully,

F. M. MAGHANGA
UON MBA STUDENT

PETERSON.O.MAGUTU
UNIVERSITY LECTURER

APPENDIX II: QUESTIONNAIRE

GENERAL INFORMATION (Please answer the following questions) by placing the [√] in the appropriate box or by giving the necessary details in the provided spaces.

SECTION A:

PART 1: RESPONDENTS PROFILE

1. What is Name of your company.....?
2. Title or position of the respondent in the firm.....
3. How long have you been with this firm.....

PART 1: ORGANIZATION DATA

4. How would you classify your firm in regard to ownership?

Wholly Foreign owned?	[]
Wholly locally owned?	[]
Both locally and foreign owned	[]
5. For how long has your firm been operating in Kericho County?

1-10 years	[]
10-20 years	[]
Over 20 years	[]
6. What is the range of the number of employees in your firm?

0- 50	[]
50- 100	[]
Over 100	[]
7. Does your company have a logistics department?

Yes	[]
No	[]
8. If the answer is No how do you manage your logistics activities?.....

SECTION B: DRIVERS OF LOGISTICS OUTSOURCING

9. Which of the following statements according to you are some of the reasons that drive firms to outsource their logistics functions; please rate the extent to which you agree with the statements: the scale ranges from (1) **Very Small Extent**, (2) **Small Extent** (3) **Some Extent**, (4) **Great extent** (5) **Very great Extent** (✓) as appropriate.

	Very Small Extent	Small Extent	Some Extent	Great extent	Very great Extent
Outsourcing reduces overhead costs					
Lack of internal expertise to perform logistic functions					
Lack time to perform such activities					
To avail more time for other activities					
Availability of third party logistics providers					
There availability of a partner to provide a better service					
Company policy at National/international level					
Global best practices					
So as to Improve productivity					
So as to make use of technology and innovation					
Globalization of business					
Availability of a supportive infrastructure					
Logistic activities are non-core to the firm					
Government policy					

Any other _____

SECTION C: THE PRACTICE LOGISTIC OUTSOURCING

11. Please indicate by ticking (√) if your company has outsourced any of the services listed below in last five years?

Distribution	[]
Operations	[]
Transport	[]
Warehousing	[]
Fleet Management	[]
Fleet Operations	[]
Fleet Maintenance	[]

Any other _____

12. Does your company practice any of the following? Please indicate the extent to which you agree with the statements on a scale that ranges from (1) **Very Small Extent**, (2) **Small Extent** (3) **Some Extent**, (4) **Great extent** (5) **Very great Extent** (√) as appropriate.

	Very Small Extent	Small Extent	Some Extent	Great extent	Very great
Mergers and acquisitions					
Strategic alliances with logistic service providers					
Contracted a third part to manage its logistics services					
Have an in-house logistics department					
Hired logistics services during peak seasons?					
Rely on logistics services used by competitors					
Practice E-outsourcing					
Owns a logistics subsidiary					

Any other _____

SECTION D: THE CHALLENGES OF LOGISTICS OUTSOURCING

13. Which of the factors listed below according to you are some of the challenges of outsourcing your logistics function; please indicate the extent to which you agree with the statements: the scale ranges from (1) **Very Small Extent**, (2) **Small Extent** (3) **Some Extent**, (4) **Great extent** (5) **Very great Extent** (√) as appropriate.

Challenges of Logistics Outsourcing	Very Small Extent	Small Extent	Some Extent	Great extent	Very great Extent
Loss of control on logistics functions					
There is loss of command on service delivery					
Information leakage occurs from service providers					
Over reliance on service providers					
Loss of employee loyalty					
Disintegration of internal conflict					
Low quality of work					
Over reliance on external parties					
Switching cost					
Industrial unrest					

Any other _____

THANK YOU VERY MUCH FOR YOUR AMPLE TIME

APPENDIX III: TEA PROCESSING FIRMS IN KERICHO, COUNTY

FIRM	RESPONDENTS
KTDA	3
Mogogosiek Tea factory	2
Kapkatet Tea Factory	2
Tegat Tea Factory	2
Momul Tea factory	2
Toror Tea Factory	2
Kapkoros Tea Factory	2
Tirgaga tea Factory	2
Rorok Tea Factory	2
Unilever	3
Chagaik Factory	2
Jamji Factory	2
Kericho Factory	2
Tagabi Factory	2
Kimugu factory	2
Kimari Factory	2
Williamson Tea	3
Changoi Tea Factory	2
Finlay's	3
Saosa factory	2
Mara Mara Instant	2
Kymulot factory	2
Koros Factory	2
Kitumbe Factory	2
Chomogonday Factory	2
Changana factory	2
<u>TOTALS</u>	<u>56</u>