

**LOGISTICS OUTSOURCING AND PERFORMANCE OF COMMERCIAL  
BANKS IN KENYA**

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**DECLARATION**

I declare that this research project is my original work and has never been submitted to any other university for assessment or award of a degree.

Signed.....Date.....

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This research project was submitted for assessment with my authority as the university supervisor

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## **DEDICATION**

To my family, for your love and support.

## **ACKNOWLEDGEMENTS**

My sincere gratitude goes to the University of Nairobi for granting me an opportunity to pursue my post graduate studies. Most importantly, I sincerely wish to acknowledge the support from my supervisor Mr. Michael Chirchir without whom I could not have gone this far with my project work.

I wish to acknowledge my family for their moral support and continued encouragement.

To every other individual who through one way or another directly or indirectly involved themselves in making me realize my child hood dream.

May our good Lord Richly bless you.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>CBK</b>	-	Central Bank of Kenya
<b>CSCMP</b>	-	Council of Supply Chain Management Professionals
<b>GM</b>	-	General Motors
<b>IT</b>	-	Information technology
<b>KBA</b>	-	Kenya Bankers Association
<b>KES</b>	-	Kenyan Shilling
<b>LSP</b>	-	Logistic Service Provider
<b>SPSS</b>	-	Statistical Package for Social Sciences

## ABSTRACT

Outsourcing of services has become a common practice among commercial banks in Kenya and this is due to the various benefits that accrue to an organisation as a result of outsourcing. Contracting out production of goods and service to third party providers has been a growing concern by organizations. The need for outsourcing by organizations is to enable them concentrate on their core business activities, and therefore delineate the activities that are none-core and which would be generally expensive to undertake to other service providers. Just like other organizations, commercial banks in Kenya have continuously been involved in the outsourcing of various services; amongst them the logistic arm of their operations to other banks. The implied need for the process of logistic outsourcing by the commercials banks is to increase their performance level, and therefore help improve their productivity, competitiveness and profitability in general. In the past the various studies covered have not extensively delved into logistics outsourcing practises in relation to the performance of commercial banks. As a result, this study explored outsourcing practises viz a viz the performance of commercial bank in Kenya. The population of the study in this research was all the (43) commercial banks in Kenya. A census method was applied to come up with the sample size since the target population was relatively small and it involved a descriptive research design. The primary data was collected from Logistics and procurement managers or their equivalent by the use of a standard questionnaire which was administered by 'drop and pick' method. The response rate was 69.8%. The results established that the commercial banks were outsourcing transportation management, warehouse management and material handling management. The commercial banks opted to outsource their services due to its advantages and its possible influence on organizational performance, as it enables the commercial banks to focus on their core competencies. The outsourcing practises adopted by the commercial banks will in the long run determine their survival as they would seek to reduce operating costs, improved customer satisfaction and timely delivery of services to clients which in turn will increase productivity and reduce lead time and improved profits. The study confined itself to commercial bank in Kenya and the findings may not be applicable in other sectors as a result of its uniqueness of commercial banks. It is therefore recommended that the study is replicated in other service sector to establish the logistics outsourcing services and performance.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

In recent years, the advancement in information technology has revolutionized the way companies conduct business. Outsourcing of business processes is one of the key outcomes of the technological advancement. Due to its information technology intensive business processes the potential for outsourcing appears to be particularly high in the banking industry. This is further enhanced by the fact that most of the data in the banking sector are in digital form coupled with the increased use of internet (Gewald and Dibbern 2005).

Outsourcing is defined as the use of a third party, 'either an affiliated entity within a corporate group or an entity that is external to the corporate group' to perform activities on a continuity basis that would normally be undertaken by the regulated entity, now or in the future. It is the initial transfer of an activity ( or a part of that activity ) from a regulated entity to a third party or the further transfer of an activity ( or a part thereof) from on third party service provider to another, sometimes referred to as 'subcontracting', in some jurisdictions , the initials outsourcing is also referred to as subcontracting .

Outsourcing is increasingly being used as a means of both reducing costs and achieving strategic goals; Basle Committee (2005). Its potential impact can be seen across many business activities , including information technology( e.g., application developments, programming, and coding), specific operations( e.g., some aspects of finance and accounting, back – office activities and processing and administration), and contract

function ( e.g., call centers). Industry reports and regulatory surveys of industry practices indicate that financial firms are entering into arrangements in which other firms- related firms within a corporate group and third-party service providers conduct significant parts of the enterprise's regulated and unregulated activities.

Activities and functions within an organization are performed and delivered in diverse ways, some of them may be split such functions as products manufacturing, marketing , back office and distribution within the regulated entity. The outsourcing of logistics functions has become the obvious choice with companies eyeing for cost reduction and value enhancement while distributing and transporting the product and by-products. As a result outsourcing all or part of logistics functions in a logistical supply chain to logistics service providers has now become a norm across the industry.

### **1.1.1 Logistics Outsourcing**

With the ever changing financial world, banks concentrates their efforts on particular skills or core business or service and letting others provide non- core services. This is referred to as outsourcing which occurs when a bank uses another party (either a related party or an independent party) to perform business functions that would have been undertaken by the bank itself. It is management strategy which an organization delegates major, non-core functions to a specialized and efficient service providers, or as Corbett (1999). Outsourcing is nothing less than the wholesale restructuring the corporation around our core competencies and outside relationships.

Initially, logistics outsourcing was treated as a variation of the traditional make/buy decisions process (Maltz and Ellram, 1997). The emphasis being on tactical benefits like

cost reductions, having more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999; Bacon 1999). According to Niemeyer (2006) he argues that nowadays bank tend to concentrate on various functions, i.e.; funding, risk management, liquidity management or credit decision-making, to specific centers of competences and take advantage of benefits related to economies of scale or specialization. These centers can be located either in home economies or abroad and can serve affiliates of these banks located in other countries. Logistics outsourcing does influence not only the organizational structures and costs but also does an impact on competition in banking sector. Wood and Batiz- Lazo (1997) indicate also that outsourcing in banking can indirectly stimulate competition in banking industry. They indicate that dynamic development of outsourcing markets can lower the capital and scale barriers in banking sector, as a result, weaken competition position of key players in banking.

### **1.1.2 Organizational Performance**

Performance refers to output and their outcomes obtained from process, production and services that permits evaluation and comparison relative goals or standards expressed both in monetary and non- monetary terms, in technical terms, a performance measure is a quantifiable expression of the amount, cost, or a result of activities that indicate how well or badly a firm is performing both financially and non-financially (Kargar and Parnell, 1986; Ramanujam and Venkatram, 1987).

Most banks measure their performance using financial and non- financial measures. The financial measure includes profit before tax and turn over while non- financial measure focus on the issues pertaining to customers' satisfaction and customers' referrals rates, delivery time , waiting time and employees' turn over. Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain (Kerandi et al, 2014).

Outsourcing of logistics continues to play a major role in the financial industry (Khan,2008), .Industry research and surveys by regulation show financial outsourcing form a significant part of the regulated and unregulated activities.

### **1.1.3 Logistics Outsourcing and Organizational Performance**

The organizations performance as stated by Wheelen and Hunger (2009) is an end result of an activity and an organization performance is accumulated end results of all the organisation work in progress ad activities. Managers measure and control organisation performance because it leads to better asset management, to an increasing ability to provide customer value, to improve measures of organizational knowledge and measure of organizational performance which has an impact on organisations reputation. When the performance of the organisations is assessed, the past management decisions that shaped investments, operations and financing are measured to know whether all the resources were used effectively, whether the profitability of the business met or even exceeded expectations and whether financing choice was made prudently. The most frequently used organizational performance include organisation efficiency, organisation effectiveness and industry ranking.

Organizational performance can be seen as a multi-dimensional construct consisting of more than simply financial performance (Swanson, 2000). According to Swanson (2000) organizational performance is the valued productive output of a system in the form of goods and services. Organizational performance can be subdivided into three categories; financial performance (profit), internal non-financial performance (production) and external non-financial performance (customer satisfaction). Private sector organisations strive for good financial results whereas public organisations are aimed at non-financial like delivering good public services to citizens. Gottfredson et al, 2005 many organisations have been pursuing similar arrangement with their suppliers whereby the companies outsource much of the products design to specialist design companies.

#### **1.1.4 Commercial Banks in Kenya**

A commercial bank can be defined as a company, which carries on, or proposes to carry on banking business (Kenya Banking Act, 1995). Under the constitution of Kenya (2010), it is governed by the Companies Act, the Banking Act, the Central Bank of Kenya and the various prudential guidelines issues by the Central Bank of Kenya (CBK). Banking in Kenya started with British colonialist and few Indian traders towards the end of the 19<sup>th</sup> century. The first bank to start in Kenya was the National Bank of India which was re-named Kenya Commercial Bank in 1986, followed by the Standard Bank in 1910. The banking sector has been changing steadily in many areas such as asset base, target customers, marketing strategies, information technology, competitive strategies and their role in the economy.

Up to the 1980s, regulation in the financial services was mainly based on restriction of both the range of products that a bank could offer and the nature and volume of contracts in the geographical area in which the services could be offered. The liberalization brought about many changes, which have impacted the banking business both positively and negatively. One major positive change is the lifting of foreign exchange control. The reforms also increased the intensity of competition among banks (Oloo, 2007). As a result, organizations are made to change their ways of doing business so often and almost constantly in some environments in order to remain competitive (CBK, 2006). The CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

According to the Kenya Bankers Association (KBA 2014) there are forty three commercial banks in Kenya with branch network in all major towns of the county. The banks have come together under the Kenya Bankers Association, which serves as lobby for the banking sector's interest. The KBA serves a forum to address issues affecting members.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. According to the Banking Survey Report of 2009 (Oloo, 2009), five players –Kenya Commercial Bank, Barclays Bank, Standard Chartered, Cooperative banks, and CFC Stanbic Bank – are the main players in the market, controlling 34% of the total customer deposits and 52% of the total assets in the banking sector in Kenya. This growth has been attributed to an industry wide branch network expansion strategy both in Kenya and in the East African community



region, automation of a large number of services, and a move towards emphasis on the complex customers' needs rather than traditional 'off-the shelf' banking products. Players in this sector have experienced increased competition from the mobile banking. The CBK has estimated the value of M-pesa( Mobile banking services by Safaricom Mobile Telephone Company) transactions at KES 26.99 billion in December 2008 up from KES 0.06 billion in March 2007( Oloo,2009) resulting to increased innovation among the players and new entrants into the market ( CBK,2006).

### **1.2 Statement of the Problem**

Logistics outsourcing involves a relationship between a company and a Logistic service provider which compared with basic logistics services has more customized offerings encompassing a broader number of a service activities characterized by a long term orientation and thus is rather strategic in nature. The profitability of commercial banks depends heavily on their performance. Due to the problem of profitability and stiff competition in the industry, commercial banks need to innovative techniques to enable quality improvement and cost reduction in order to gain or maintain competitive advantage and avoid elimination from the market (Nyaoga et al., 2012). The front runners of logistics outsourcing were the commercial banks in developed countries (Schniederjans & Cao, 2006). Dickerson (2004) Soliman and Chen (2003) have noted that the banking industry tended to rush to outsource without adequate information thus calling for a further study.

Despite the growth in logistics outsourcing, it is still an emerging business area in many countries, Jiang and Qureshi (2006), points out that the results of logistics outsourcing is

still vague and an unexplained puzzle hence the basis of this study. Kirui (2001) found out that 3<sup>rd</sup> party logistics providers are ahead of manufacturing companies that operate logistics departments on quality implementation and improvement issues in logistics services. However this study was done on manufacturing companies. Barako and Gatere (2008) noted that banks have increasingly been engaging in outsourcing however there is no regulation guiding outsourcing. Rono (2011) found out that the concept of outsourcing arrangement is increasingly becoming complex and has a potential to transfer risks to management or to third parties who may not be regulated. This calls for further study on how logistics outsourcing may affect the performance of commercial banks.

Mulama (2012) found out that large manufacturing firms had adopted transportation management, warehouse management and material handling management. However this study was done on large manufacturing firms. Mwangi (2012) found out that there are benefits of outsourcing some of the logistics functions. However there are numerous challenges which do demonstrate the need for further research to develop a good logistics outsourcing framework in the supply chain management. It was out of these existing research gaps that more information is needed to understand the effect of logistics outsourcing and the challenges encountered. The study therefore sought to answer the following research questions: What is the extent of logistics outsourcing in commercial banks in Kenya? What is the relationship between logistics outsourcing and performance of commercial bank in Kenya? What are the challenges of outsourcing logistics in commercial banks in Kenya?

### **1.3 Objectives of the Study**

This study sought to achieve three objectives:

- i. To determine the extent of logistics outsourcing among commercial banks in Kenya;
- ii. To determine the relationship between logistics outsourcing and performance of commercial banks in Kenya; and
- iii. To establish the challenges faced in outsourcing logistics in commercial banks in Kenya.

### **1.4 Value of the Study**

Commercial banks and financial institutions would benefit from the insights with respect to this study in their policy formulation and implementation in their strategic plan with respect to continuous improvement use of logistics outsourcing in order to create competitive advantage and optimize resource use in order to serve their clients better and improve on their performance .

The government and the Central Bank of Kenya and other organizations are expected to use the findings in policy formulation and implementation with respect to logistics outsourcing by commercial banks in Kenya.

The finding of the study are expected to help researchers and academicians wishing to do studies or further research on this subject in the future as it will identify some of the research gaps in areas related to logistics outsourcing and organizational performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will provide information from publications on the related topics as well as theories related to Logistics outsourcing. It will examine findings from various scholars and authors about logistics outsourcing. The chapter will cover the theories of logistics outsourcing, levels of logistics outsourcing, and the logistics outsourcing practices, benefit of logistics outsourcing to firm performance, performance measures and lastly the knowledge gaps and conceptual framework.

#### **2.2 Logistics Outsourcing**

Logistics outsourcing involves a relationship between a company and LSP (logistics service provider). In 2005 the Council of Supply Chain Management Professionals (CSCMP 2005) defined logistics as ‘that process that plans implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers’ requirements.’

On the other hand outsourcing is seen as a means through which a business condition or a 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 a company (De Boer, Gayfan, and Arroyo 2006)

It is defined as the operation of shifting previously internally guaranteed transactions to an external supplier through a long term contract frequently involving the transfer of staff to the vendor. Raiborn et al (2009) describe outsourcing as the act of turning to an external organisation to perform a function previously performed in-house. The outsourcing process is a complex structure consisting of numerous activities and sub activities; it therefore does bring about some managerial dilemmas due to the additional costs.

Transaction cost refers to the costs of physical and human resources incurred in order to complete an exchange of goods and services between parties. It is generally accepted as a useful framework for analyzing logistics and outsourcing decisions (Hobbs 1996; Andersson 1997). Factors that contribute to these costs include opportunist's behavior, the search for the 'true' price at which purchases ought to take place, and the need to discover the 'true' quality of goods and services. Excessive transactional cost may be transferred to other units in the organizations. Transaction cost proposes that firms exist in order to maximize profits by reducing transaction added cost through three different forms of governance structures, market.

Agency theory on the other hand is the contracts under which one or more persons ( the principals ) engage another person ( agent) to perform some of the services on their behalf which involves delegating some decision making authority to the agent ( Jensen and Meckling 1976). The principal cannot monitor the actions or activities of the organisation without a cost, two agency problems does arise; adverse selection and moral hazard. adverse selection refers to the problem that the principal cannot determine if the

agent accurately represents his ability to do the work for which he is being paid; moral hazard refers to the problem that the principal cannot be sure if the agent has put forth maximum effort( Eisanhardt 1989).

Resource based theory developed by Barney J.B. in 1991 and is based on the factors that enable a firm to gain competitive advantage. The theory argues that firms earn sustained competitive advantage because they have access to strategic resources. These resources have four characteristics, they are rare (competitors can't obtain them) valuable (generate high returns), cannot be imitated, and have no close substitute. When these conditions are met, competitive advantage has been created (Priem & Burtler, 2001). This has led to firms drastically changing the manner in which they conduct business and thus coming up with ways of exploring various means of organizing their operations. All these actions cannot be explained from the perspective of reducing or eliminating transaction cost alone. The decisions to outsource may be driven by the need to focus on the core competencies by engaging more specialized firms to carry out peripheral operations.

Systems theory focuses on organization and interdependence of relationships. The early works of von Bertalanffy (1950; 1968) heralded the use of the systems perspective to analyse a variety of complex operations, many of which are based on the central theme that businesses are systems comprising processes. Von Bertalanffy (1950; 1968) argued that it is necessary to view and analyse different parts of complex operations as a whole. A system is characterized by the interactions of its components and the nonlinearity of those interactions. The notion of a system may be seen as simply a more self-conscious and generic term for the dynamic interrelatedness of components. The impact of actions

occurring at any point within the system can be felt by the whole system. This systems theory concept is used to explain how materials-flow, related activities, and information within and outside firms are so complex that they can be considered only in the context of their interaction (Roberts and Edwards 1971).

In the network theory perspective, logistics outsourcing enables the firm to manage its supply chain as a single entity through the application of relational contracting (Ellram 1990) and network coordination (Hakansson and Snehota 1995; Ford 1997). This view of the logistics channel as a whole versus a fragmented set of individual parts is similar to the traditional vertical marketing systems (Bucklin 1966; Scott and Westbrook 1991) and theories of distribution channel structures and channel research (Stern et al. 1989). The necessity for organizations to exchange resources is an important explaining factor for inter-organizational relationships in this approach (Hakansson and Snehota 1995). Network theory provides an explanation for the formation of different types of 3PL-client relationships, based on the extent of contractual limitations and freedom.

### **2.3 Logistics Functions Outsourced**

The need for outsourcing has grown over the last two decades as there is an increase in global competition, downsizing, the move to flatter organizations, the need to reduce costs, improve quality, service and delivery, organizational focus, increase flexibility, facilitate changes and the emphasis on core competencies (Fan 2000).

The organization of market places has shifted from pure hierarchy and market based modes to hybrid arrangements involving significant vendor participation (Fritsch and Wullenweber, 2007). Some of the Logistics outsourcing practice include Inventory

management, Warehouse management, and Information management, Material handling management, Transport management and Logistics procurements practices.

**Inventory management** - Inventory management involves providing the required inventory levels that will sustain the organization's daily operations at minimum costs. This covers issues like determining the level of stock to order, when to order, establishing receipt and inspection procedures and providing proper storage facilities. Without proper stock control procedures in place, firms are likely to face two undesirable inventory levels. That is to say excessive/ high levels of inventory or inadequate/ low levels of inventory (Dickerson 1995).

**Warehouse management**-Warehouse management of a firm logistics system stores product (raw material parts, good in progress and finished goods) at end between the points of origin and point of consumption. It plans a weekly activity forecast on such factors as statistics and trends. It is also defined as the systematic location, storage and recording of goods in such a way that desired degree of service can be made to the operating shops at a minimum ultimate cost" (S.C Sharma (1999).

**Information Management** -Information Management is the handling of information acquired by one or many different sources in a way that optimizes access by all who have a share in that information or a right to that information. With companies outsourcing significant portions of their business operations (such as supply chain management), information systems can play an important role. General Motors (GM) is one company that outsourced many of its information technology (IT) operations in 2003. Doing so required coordinating operations and information systems among GM's internal IT



operations and numerous other companies. One major task in this process has been standardizing information technology and other software processes.

**Material Handling Management** - Material handling is the science of movement, handling and storage of material during transportation. People can move material by lifting the items directly or with the use of Material Handling equipment such as handcarts, slings, and other handling accessories. Material can also be moved using machines such as cranes and forklifts. These are generally used when heavy materials need to be moved (Mulama, 2012). Material handling requires systematic recording, critical review and overseeing of all related activities to eliminate as many unnecessary movements as possible. It is a primary activity in all industries and involves numerous people and specialized material handling equipment.

Transport Management Logistics service providers are widely used in practise (Lieb and Bentz 2005; Langley, Sykes et al.2006; Lieb 2008) for transportation services as well as the management of the transport companies providing the service (Hannon 2006; Hannon 2008). Logistics can have a great influence on performance of the firm. If inbound material flows from the supplier are erratic, the firm's internal operation will not be able to sustain their production strategies without a high level of safety stock. Similarly, if the flows of the finished goods to the customer are erratic, the firm's customer base will be dissatisfied. Thus, the performance of the firm's logistics operation can significantly influence both the cost and revenue of an operation.

**Procurement Logistics**- It consists of activities such as market research, requirements planning, make-or-buy decisions, supplier management, ordering, and order controlling.

The targets in procurement logistics might be contradictory: maximizing efficiency by concentrating on core competences, outsourcing while maintaining the autonomy of the company, or minimizing procurement costs while maximizing security within the supply process, Mulama (2012).

## **2.4 Organizational Performance**

The business environment in which organizations are operating in currently is highly competitive, rapidly changing courtesy of Information Technology thus organizations have been forced to consider, and adopt or implement, a wide variety of innovative management programs and techniques. One such program that has been used extensively is Benchmarking (Nyaoga et al., 2012).

Performance is focused behavior or purposeful work (Rudman, 2008). That is, jobs exist to achieve specific and defined results (outputs) and people are employed so that organizations can achieve those results. This is performed by accomplishing tasks. High-performing organizations actively identify “key performance indicators,” and measure their progress against established target values for those indicators, as a way of measuring their effectiveness.

The key indicators are the performance measures (or metrics) of the enterprise. Performance measures are based on data, and tell a story about whether an agency or activity is achieving its objectives and if progress is being made toward attaining policy or organizational goals. In technical terms, a performance measure is a quantifiable expression of the amount, cost, or result of activities that indicate how much, how well,

and at what level, products or services are provided to customers during a given time period. Measures are a tool to help understand, manage, and improve (Rudman, 2008).

Most organizations measure their performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain.

Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern organizations have adopted a hybrid approach of using both the financial and non-financial measures. These measures serve as precursors for course of actions. The combinations of these two measures help the owners-managers to gain a wider perspective on measuring and comparing their performance.

The most common non-financial measures adopted by organizations are number of employees, growth in revenue across time, market share and revenue per employee. These measures need to be reviewed and updated regularly ensuring that they remain suitable for the changing environments, competition, availability of resources, meeting the stakeholders' needs and expectations, and fit into internal planning and target settings (Haber and Reichel 2005).

## **2.4 Logistics Outsourcing and Organizational Performance**

The organizations performance as stated by Wheelen and Hunger (2009) is an end result of an activity and an organization performance is accumulated end results of all the organisation work in progress ad activities. Managers measure and control organisation performance because it leads to better asset management, to an increasing ability to provide customer value, to improve measures of organizational knowledge and measure of organizational performance which has an impact on organisations reputation. When the performance of the organisations is assessed, the past management decisions that shaped investments, operations and financing are measured to know whether all the resources were used effectively, whether the profitability of the business met or even exceeded expectations and whether financing choice was made prudently. The most frequently used organisational performance include organisation efficiency, organisation effectiveness and industry ranking.

Organizational performance can be seen as a multi-dimensional construct consisting of more than simply financial performance (Swanson, 2000). According to Swanson (2000) organizational performance is the valued productive output of a system in the form of goods and services. Organizational performance can be subdivided into three categories; financial performance (profit), internal non-financial performance (production) and external non-financial performance (customer satisfaction). Private sector organisations strive for good financial results whereas public organisations are aimed at non-financial like delivering good public services to citizens. Gottfredson et al, 2005 many organisations have been pursuing similar arrangement with their suppliers whereby the companies outsource much of the products design to specialist design companies.

The efficiency and effectiveness of the logistics operation has a considerable influence not only on the business performance of manufacturers but also on the customer's perception of the quality of the products and services provided by the plant. If inbound material flows from the supplier are erratic, the firm's internal operation will not be able to sustain their production strategies without a high level of safety stock. Similarly, if the flows of finished goods to the customer are unreliable, the firm's customer base will be dissatisfied. Accordingly, logistics is strategically important in many industries as it is central to achieving competitive advantage (Bowersox, Closs, & Cooper, 2010).

Empirical evidence suggests, however, that plants do not always experience consistent improvement in financial performance when outsourcing some portion of their operation (Ehie, 2001; Jiang et al., 2006; Kotabe & Murray, 2004). This failure may be due to competitive priorities that emphasize dimensions other than cost or cost alone (i.e. supplier retention, access to additional capacity). A second explanation relates to mitigating and contextual factors, many of which are proposed in the research literature. Krizman (2009) investigated logistics specific outsourcing based on a survey of companies in the Slovenian market and found that logistics involvement, knowledge sharing, and innovation have a significant effect on outsourcing performance. Hilletoft and Hilmola (2010) investigated the effects of logistics outsourcing on companies in Northern Europe and found that outsourcing of warehousing, IT, and customs brokerage could have impact on some managerial and strategic aspects of supply chains.

The performance of a firm when outsourcing logistics has been investigated using cost related performance measures, along with operational/channel and relational dimensions

in Knemeyer and Murphy (2004) and Deepen, Goldsby, Knemeyer and Wallenburg (2008). Earlier research largely investigates the influence of relational antecedents such as cooperation, communication, trust, opportunistic behaviour, prior satisfaction, responsiveness, assurance, and empathy on performance in this domain.

Firms evaluate outsourcing to determine whether current operation costs can be reduced and if saved resources can be reinvested in more competitive process. Most of the studies done have not fully expressed the relationship between logistics outsourcing practises to the performance of commercial banks (Physica- Verlag Heidelberg 2007). Thus this study wishes to explore the outsourcing practices against the performance of commercial banks in Kenya.

Miles and Huberman (1994) defined a conceptual framework as visual or written product, one that 'explains, either graphically or in narrative form, the main things to be studied – the key factors, concepts, or variables- and the presumed relationships among them. Mulama (2012) found out that logistics of services has become a common practice among organisation worldwide and this is due to the various benefits that accrue to a firm as a result of logistics outsourcing. Mwangi (2012) found out that there are numerous challenges of logistics outsourcing some of which could be delays in service delivery due to supplier inefficiencies, complication of an institution supply network which in turn may affect the organizational performance.

With the rapidly completion in the financial market in Kenya, banks are extraneously using growth performance indicators, that provide them with a platform of competing well in the markets. Different banks are therefore creating products services with the

central aim of emerging as key players in the industry. While the above is normative, there are basically four prime indicators with which banks evaluate the performance levels. These are the level of profitability, branch expansion, growth in the client base, and the debt capital ratios held by the banks.

## **2.5 Challenges of Outsourcing Logistics**

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 organizations to distrust of suppliers. Wallenburg (2004, P 48) in the relationship with logistic service provider (LSP) coordination efforts between the parties are necessary, adding some other form of complexity which depending on its context could turn into a serious obstacle enroute to successful outsourcing.

While outsourcing is associated with various benefits , it can also be a serious risk factor (Bahli & Rivard,2003) some of the challenges include interface within activities, loss of competitive base, opportunistic behavior, rising transaction and coordination costs, limited learning and innovation and higher procurement costs in relation to fluctuating currency exchange rates.

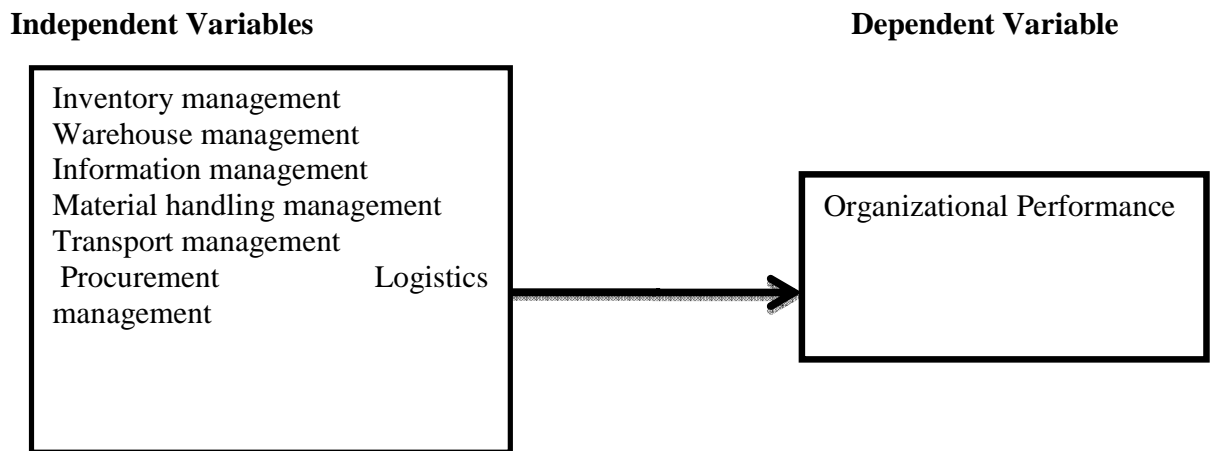
One of the most commonly cited risk is the loss of control (Wentworth 2003, Bardi & Tracey 1991). Other authors point to the complexity of outsourcing projects as one immanent and a significant challenge. According to McIvor (2000), the strategic dimension of outsourcing projects is often neglected , leading to sub-optimal result based on the short term reasons of cost reduction and capacity issues. He concludes that

problems frequently occur because complex issues, such as a formal outsourcing process, an adequate cost analysis and a thorough definition of the own core business has not been paid sufficient attention.

## 2.8 Conceptual Framework

The organizational performance of commercial banks (dependent variable) is as result of various logistic outsourcing factors (independent variable). However, other auxiliary practices describe the scope of the independent variable. Figure 2.1 shows the conceptual framework, which describes the relationship between the two sets of variable.

**Figure 2.1: Conceptual Framework of Logistics Outsourcing and Performance of Commercial Banks in Kenya.**



Source: Research Data (2014)



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology that was applied in conducting the study. It discussed the research design, target population, sampling design, data collection and techniques for data analysis.

#### **3.2 Research Design**

The study involved a descriptive research design. According to (Salaria, 2012) descriptive research is devoted to gathering of information about prevailing conditions or situations for the purpose of description and interpretation.

#### **3.3 Population and Sample**

The study population included all the commercial banks in Kenya. According to CBK there are 43 Commercial Banks actively operating in Kenya (see appendix II). Since the target population was relatively small a census was proposed.

#### **3.4 Data Collection**

The primary data was collected from Logistics and procurement managers of all the 43 commercial banks in Kenya. The Logistics Managers and Procurement Managers or their equivalents were considered appropriate. The data was collected by the use of a standard questionnaire that was administered by 'drop and pick' method. The questionnaire was in the form of Likert scale where respondents were required to indicate their views on a scale of 1 to 5, (Kothari 2004). The questionnaire contained 4 sections: Section contained data on the company profile; Section B had data measuring the extent to which commercial banks in Kenya had done logistics outsourcing; Section C contained data on the relationship between logistics outsourcing and organizational performance whereas section D covered data on challenges of logistics outsourcing in commercial banks.

### 3.5 Data Analysis

The data was analyzed by the use of descriptive statistics and regression analysis. The descriptive techniques was used to generate frequencies, mean and percentages for objectives one and three while the regression and correlation analysis used multivariate regression model to link the independent variables to the dependent variable. The researcher utilized Statistical Package for Social Sciences (SPSS) software. The following regression equation was used.  $P = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + e$  Where: P= Organisation Performance; a= the P intercept, b1, b2, b3, b4, b5 and b6 are regression coefficient of respective variables; e is the error term; x1= Inventory Management; x2= Warehouse Management; x3= Information Management x4= Material Handling Management x5= Transport Management and x6= Procurement Management as shown in Table 3.1

**Table 3.1: Summary of Data collection and Data Analysis Methods**

Section	Questionnaire	Data Analysis
Objective 1	Section B	Descriptive Statistics
Objective 2	Section C	Regression & Correlation Analysis
Objective 3	Section D	Descriptive Statistics

**Source: Research Data (2014)**

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter provides the data analysis, presentation and interpretation of the results of the study as set out in the research methodology. The purpose of the study was to investigate the relationship between logistics outsourcing and performance of commercial banks in Kenya. The study used primary data that was collected through a self-administered questionnaire that consisted both open and closed ended questions that were designed to elicit specific responses for qualitative and quantitative analysis. The data obtained was fed into SPSS version 21.0 and used to compute the ratios used as proxies to measure the relationship between logistics outsourcing and performance of commercial banks in Kenya.

#### 4.1.1 Response Rate

The study targeted the logistics managers and procurement managers or their equivalents working in the 43 commercial banks in Kenya. From this population a sample of 43 respondents (one respondents from each of the banks) from the target population in collecting data with regard to the relationship between logistics outsourcing and performance of commercial banks in Kenya. The questionnaire return rate results are shown in Table 4.1.

**Table 4.2: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	30	69.8
Not responded	13	30.2
<b>Total</b>	<b>48</b>	<b>100.</b>

**Source: Research Data (2014)**

According to the results depicted in Table 4.1, 30 out of the 43 respondents from the commercial banks in Kenya respondents filled in and returned the questionnaire. The response rate achieved for the questionnaire was 69.8%. This response rate was quite commendable and was made a reality by the fact that the researcher administered the questionnaires by himself to the commercial banks. This was valid and reliable representation of the targeted population hence adequate for the study analysis. According to Mugenda and Mugenda (2003) 50% response rate is adequate for analysis in descriptive study. This is further supported by Creswell (2003) who provides guidance that a 40% response rate is adequate.

## **4.2 General Information**

The study found it crucial to ascertain the broad information of the respondents and their organizations since it structures the charity under which the study can fairly entrance the pertinent information. The analysis relied on this information of the respondents so as to classify the different results according to their knowledge and responses. They are presented in this section under demographic characteristics of respondents, organizational structure,

### **4.2.1 Demographic Characteristics of Respondents**

The study sought to find the demographic characteristics of the respondents in order to understand the population dynamics. The aspects investigated here are age and gender of the respondents. The findings are presented in the table below.

**Table 4.3: Age and Gender Factors of the Respondents**

<b>Factor</b>	<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Male	16	53.3
	Female	14	46.7
<b>Age</b>	Under 30 years	18	60.0
	31- 40 years	9	30.0
	41-50 years	3	10.0
	Over 50 years	0	0.0

**Source: Research Data (2014)**

Table 4.2 shows the gender and age factors of the employees in Commercial Banks in Kenya. Accordingly, 53.3% of the respondents were male while 46.7 were female. The findings imply that the views expressed in these findings are gender sensitive and can be taken as representative of the opinions of both genders as regards to the relationship between logistics outsourcing and performance of commercial banks in Kenya.

In addition, an overwhelming majority of the respondents were less than 30 years of age as represented by 60% response shown in table 4.2, 30% of them were between 31-40 years while only 10% were aged between 41-50 years old. There were no respondents of age above 50 years. This depicts that commercial banks in Kenya have a more youthful employees hence can contribute constructively in this study on the relationship between logistics outsourcing and performance of commercial banks in Kenya.

#### **4.2.2 Organizational Structure**

The length of service/working in an organization determines the extent to which one is aware of the issues sought by the study. As well, the length of operation of an

organization determines its orientation in the industry of operation. In this regard the length of operation of the respondents and their organizations were assessed in the study.

**Table 4.3: Year Factors of the Respondents and their Respective Organizations**

<b>Factor</b>	<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Years worked in the organization</b>	Less than 5 years	17	56.7
	5-10 years	10	33.3
	Over 10 years	3	10
<b>Years of existence of an organization</b>	Less than 5 years	0	0
	6-10 years	4	13.3
	11-15 years	6	20
	Over 16 years	20	66.7

**Source: Research Data (2014)**

Table 4.3 shows that 56.7% of the respondents have worked in their respective commercial banks for less than 5 years, 33.3% of them had worked between 5-10 years, while the remaining portion (representing 10% of the surveyed population) have worked in the commercial banks for a period of more than 10 years. This shows that majority respondents had enough work experience in the banks and hence were conversant with issues sought by the study.

Further, of all the commercial banks sampled, none has existed for less than 5 years. Particularly, majority of the respondents, shown by 66.7% unanimously indicated that their commercial banks had been in existence for more than 16 years, 20% of them recalled that have existed for between 11-15 years, while 13.3% of the banks have been in operation for a period of 6-10 years. This depicts that the commercial banks in Kenya have been in existence for 16 years thus had been operating in the industry for a long time hence are better placed to respond to the issues sought by this study.

#### 4.2.3 Geographical Operation of the Commercial Banks in Kenya

The study sought to find out Commercial Banks in Kenya with branches in other countries. According to the study, 53.3% of the respondents operate in other countries outside Kenya while 46.7% operate in Kenya only. Majority of the banks have operations in other countries like the entire of Africa (mainly Uganda, Tanzania, South Africa, Zambia, Botswana, Rwanda, South Sudan, Ghana, Zimbabwe, Mauritius, Seychelles and Malawi), UK (London and Jersey), USA, Japan, France, New Zealand, Belgium, Italy, Hong Kong and Sultanate of Oman among others.

#### 4.3 Extent of Logistic outsourcing among commercial banks in Kenya

The first objective of the study was to determine the extent of logistics outsourcing among commercial banks in Kenya. As such the respondents were required to indicate their level of agreement with various statements on the extent to which their organizations had been practicing the various logistics practices.

**Table 4.4: Agreements with Various Inventory Management Practices by Banks**

<b>Inventory Management</b>	<b>Mean</b>	<b>Std. Deviation</b>
Proper flow of inventory	3.7000	.79438
Inventory accuracy has been achieved	3.8333	.83391
Good inventory turns/ proper space utilization	3.8667	.81931
Good housekeeping practices have been achieved by the org	3.8333	.83391

**Source: Research Data (2014)**

According to the results depicted in Table 4.4, majority of the respondents agreed that there have been good inventory turns/ proper space utilization to large extent as shown by

a mean score of 3.8667, inventory accuracy has been achieved to large extent as shown by a mean score of 3.8333, good housekeeping practices have been achieved by the organizations to large extent as shown by a mean score of 3.8333 and there is proper flow of inventory to large extent as shown by a mean score of 3.7000.

**Table 4.5: Agreements with Various Warehouse Management Practices by Banks**

<b>Warehouse Management</b>	<b>Mean</b>	<b>Std. Deviation</b>
Proper receipt procedures have been undertaken by staff	3.8000	.96132
Less damages to commodities due to proper storage	3.8333	.83391
Staff welfare has been achieved due to implementation of health and safety standards	3.9000	.84486

**Source: Research Data (2014)**

From the results shown in Table 4.5 above, there was agreement from most of the respondents that there has been staff welfare has been achieved due to implementation of health and safety standards to large extent as shown by a mean score of 3.9000, there are less damages to commodities due to proper storage to large extent as shown by a mean score of 3.8333 and proper receipt procedures have been undertaken by staff to large extent as shown by a mean score of 3.8000.



**Table 4.6: Agreements with Various Information Management Practices by Banks**

<b>Information Management</b>	<b>Mean</b>	<b>Std. Deviation</b>
Visibility between various departments in the organization	3.8667	.77608
Paperless operation in the organization	3.8000	.88668
Availability and proper flow of information in the organization	4.0000	.74278
My organization utilizes information technology in coordinating its activities with suppliers	3.8667	.81931

**Source: Research Data (2014)**

According to the study results, majority of the respondents agreed that through outsourcing in their banks there has been availability and proper flow of information in the organization to large extent as shown by a mean score of 4.0000, as well as visibility between various departments in the organization to large extent as shown by a mean score of 3.8667, their organizations utilizes information technology in coordinating its activities with suppliers to large extent as shown by a mean score of 3.8667 and there has been paperless operation in the organization to large extent as shown by a mean score of 3.8000.

**Table 4.7: Agreements with Various Material Management Practices by Banks**

<b>Material Management</b>	<b>Mean</b>	<b>Std. Dev</b>
Quality check on the materials	3.8000	.84690
Adoption of modern storage infrastructure	3.8000	.80516
Efficiency due to use of modern material handling equipment	3.7333	.86834
The supplier to the organization show compliance with particular regulations such as emissions caps , hazardous material labeling , product specification and having environment related documentation, this has enhanced quality of the product delivered	3.7333	.82768

**Source: Research Data (2014)**

As shown in Table 4.7, majority of the respondents recapped that due to outsourcing there has been quality check on the materials, adoption of modern storage infrastructure, efficiency due to use of modern material handling equipment and the supplier to the organization show compliance with particular regulations such as emissions caps, hazardous material labeling, product specification and having environment related documentation, this has enhanced quality of the product delivered as shown by mean scores of 3.8000, 3.8000, 3.7333 and 3.7333 respectively.

**Table 4.8: Agreements with Various Transport Management Practices by Banks**

<b>Transport Management</b>	<b>Mean</b>	<b>Std. Dev</b>
Vehicle scheduling has improved	3.4333	.85836
Route optimization has been achieved	3.5667	.89763
Fleet tracking tools have increased vehicle visibility	3.5000	.90019

**Source: Research Data (2014)**

From the study, the respondents opined that route optimization has been achieved to a large extent as shown by a mean score of 3.5667 and fleet tracking tools have increased vehicle visibility to large extent as shown by a mean score of 3.5000 while they indicated that vehicle scheduling has improved to a moderate extent as shown by a mean score of 3.4333.

**Table 4.9: Agreements with Procurement Logistics Management Practices by Banks**

<b>Procurement Logistics Management</b>	<b>Mean</b>	<b>Std. Dev</b>
My organization practices transparent sourcing of suppliers	3.9333	.78492
Good supplier relations is maintained by the organization	3.9333	.90719
Effective information delivery is maintained with the supplier of services and provider	4.0333	.76489
In the assessing the potential outsourcing services, the organization's benchmarks to determine whether the company meets your targets	4.0000	.78784

**Source: Research Data (2014)**

According to the results shown in table 4.9, through outsourcing, effective information delivery is maintained with the supplier of services and provider to a large extent as shown by a mean score of 4.0333, in the assessing the potential outsourcing services, the organizations' benchmarks to determine whether the company meets the targets to a large extent as shown by a mean score of 4.0000, the organizations practice transparent sourcing of suppliers to a large extent as shown by a mean score of 3.9333 and good supplier relations is maintained by the organization to a large extent as shown by a mean score of 3.9333. In general, a large number of respondents said that there's a large extent of material management, transport management and procurement logistic management in commercial banks in Kenya.

#### **4.4 Relationship between Logistics Outsourcing and Organizational Performance**

In its second objective the study sought to find the extent to which commercial banks have been practicing various logistics practices and the results are shown in the following sections.

**Table 4.10: Relationship between Bank Performance and Inventory Management**

<b>Inventory Management</b>	<b>Mean</b>	<b>Std. Deviation</b>
Logistics outsourcing has led to reduction in lead time	3.9000	.66176
Logistics outsourcing has made the organization to achieve timely delivery of services to clients	3.9667	.66868
Orders and deliveries are easily processed to avoid delays	3.9667	.71840

**Source: Research Data (2014)**

The results depicted in Table 4.10 show that majority of the respondents agreed with that logistics outsourcing has made the organizations to achieve timely delivery of services to clients to a large extent as shown by a mean score of 3.9667, orders and deliveries are

easily processed to avoid delays to a large extent as shown by a mean score of 3.9667 and logistics outsourcing has led to reduction in lead time to a large extent as shown by a mean score of 3.9000.

**Table 4.11: Relationship between Bank Performance and Warehouse Management**

<b>Warehouse Management</b>	<b>Mean</b>	<b>Std dev.</b>
Database of the supplier can be easily maintained	3.8667	.73030
All activities and processes are pulled into a central database	3.7667	.67891
Incoming stocks are properly recorded after receiving from suppliers	3.8667	.77608
Stock bins and other recording methods a well enhanced	3.8000	.66436

**Source: Research Data (2014)**

Further, the respondents agreed that database of the supplier can be easily maintained to a large extent as shown by a mean score of 3.8667, incoming stocks are properly recorded after receiving from suppliers to a large extent as shown by a mean score of 3.8667, stock bins and other recording methods a well enhanced to a large extent as shown by a mean score of 3.8000 and all activities and processes are pulled into a central database to a large extent as shown by a mean score of 3.7667.

**Table 4.12: Relationship between Bank Performance and Information Management**

<b>Information Management</b>	<b>Mean</b>	<b>Std dev.</b>
The organization has achieved the use of modern tool in offering its services	3.7667	.85836
Sharing of information improves organizational performance	3.9000	.71197
Information moves faster and this reduces lead time in the organization	3.9667	.61495
Maximum security is accorded against information proliferation	4.0000	.58722

**Source: Research Data (2014)**

With regard to information management, the respondents agreed that maximum security is accorded against information proliferation, information moves faster and this reduces lead time in the organization, sharing of information improves organizational performance and the organizations have achieved the use of modern tool in offering their services to large extents as shown by mean scores of 4.0000, 3.9667, 3.9000 and 3.7667 in that order.

**Table 4.13: Relationship between Bank Performance and Material Management**

<b>Material Management</b>	<b>Mean</b>	<b>Std dev.</b>
All incoming material are adequately safeguarded	3.5333	.86037
A database for all receivables and outgoing material is available	3.8333	.74664
Adequacy in staffing to undertake material management is in place	3.8667	.93710
Material tendering and purchases done on merit	3.8667	.81931

**Source: Research Data (2014)**

Table 4.13 shows the results on the respondents' agreement with statements concerning the organization performance in relation to material management outsourced in the banks. Majority of the respondents recapped that adequacy in staffing to undertake material management is in place to a large extent as shown by a mean score of 3.8667, there is material tendering and purchases done on merit to a large extent as shown by a mean score of 3.8667, a database for all receivables and outgoing material is available to a large extent as shown by a mean score of 3.8333 and all incoming material are adequately safeguarded to a large extent as shown by a mean score of 3.5333.

**Table 4.14: Relationship between Bank Performance and Transport Management**

<b>Transport Management</b>	<b>Mean</b>	<b>Std dev.</b>
Monitoring of stock movement is made easier	3.7000	.95231
Organization applies optimal transport system	3.7667	.81720
Adequate logistical function is one core attribute in the organization	3.8333	.74664

**Source: Research Data (2014)**

In regard to transport management, majority of the respondents agreed that adequate logistical function is one core attribute in the organizations to a large extent as shown by a mean score of 3.8333, organization applies optimal transport system to a large extent as shown by a mean score of 3.7667 and monitoring of stock movement is made easier to a large extent as shown by a mean score of 3.7000.

**Table 4.15: Bank Performance and Procurement Logistics Management**

<b>Procurement Logistics Management</b>	<b>Mean</b>	<b>Std dev.</b>
Logistics outsourcing leads to higher profitability	3.6000	.89443
Logistics outsourcing has led to overall sustainability of the firm	3.8000	.80516
Logistics outsourcing has improved productivity	3.7000	.46609
The organization recognizes the role of logistics in its functions	3.6667	.54667

**Source: Research Data (2014)**

From the study majority of the respondents recalled that logistics outsourcing has led to overall sustainability of the firm, logistics outsourcing has improved productivity, the organization recognizes the role of logistics in its functions and logistics outsourcing leads to higher profitability to large extents as shown by mean scores of 3.8000, 3.7000, 3.6667 and 3.6000 respectively.

#### **4.5 Inferential Analysis on Logistics Outsourcing and Performance of Banks**

The study sought to complement the descriptive analysis by carrying out an inferential statistics analysis. This involved carrying out a multiple regression analysis and a

correlation analysis. Pearson's product moment correlation analysis was used to assess the relationship between the variables while multiple regressions was used to determine the predictive power of the factors on the procurement process

#### 4.5.1 Coefficient of Correlation

To quantify strength of the relationship between the variables, the study used Karl Pearson's coefficient of correlation.

**Table 4.16: Coefficient of Correlation**

<b>Variables</b>	<b>Organizational Performance (of the Banks)</b>	<b>Inventory management</b>	<b>Warehouse management</b>	<b>Information management</b>	<b>Material management</b>	<b>Transport management</b>	<b>procurement logistics management</b>
<b>Organizational Performance (of the Banks)</b>	1	.507	.136	.181	.272	.166	.235
<b>(p) Sig. (2-tailed)</b>	.	.135	.708	.616	.447	.214	.076
<b>Inventory management</b>	.507	1	.295	.208	.277	.174	.205
<b>(p) Sig. (2-tailed)</b>	.135	.	.009	.494	.359	.130	.478
<b>Warehouse management</b>	.136	.295	1	.267	.098	.023	.103
<b>(p) Sig. (2-tailed)</b>	.708	.009	.	.377	.751	.864	.435
<b>Information management</b>	.181	.208	-.267	1	.228	.235	.097
<b>(p) Sig. (2-tailed)</b>	.616	.494	.377	.	.453	.076	.461
<b>Material management</b>	.272	.277	.098	.228	1	.146	.213
<b>(p) Sig. (2-tailed)</b>	.447	.359	.751	.453	.	.273	.102
<b>Transport management</b>	.166	.235	.023	.235	.146	1	.123
<b>(p) Sig. (2-tailed)</b>	.214	.076	.864	.076	.273		.335
<b>Procurement logistics management</b>	.174	.205	.103	.097	.213	.123	1
<b>(p) Sig. (2-tailed)</b>	.130	.478	.435	.461	.102	.335	

Source: Research Data (2014)

The researcher used the Karl Pearson's coefficient of correlation ( $r$ ) to study the correlation between the study variables and the findings. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. Table 4.15 above indicates the correlation matrix between the factors (inventory management, warehouse management, information management, material handling management, transport management and procurement logistics management) and performance of the commercial banks in Kenya. According to the table, there is a positive relationship between performance of commercial banks and procurement logistics management with a correlation value of 0.235, between performance of banks and transport management with a correlation value of 0.166 as well as performance of commercial banks and material management with a correlation value of 0.272. In addition, there exist a positive correlation between performance of commercial banks and information management, warehouse management and inventory management of magnitude 0.181, 0.136 and 0.507 respectively. The positive relationship indicates that there is a direct correlation between the aspects outsourced and the performance of commercial banks with inventory management having the highest value and warehouse management having the lowest positive correlation value.

#### **4.5.2 Regression Analysis**

In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between the six variables and performance of commercial banks. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.



**Table 4.17: Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792 (a)	.627	.303	.125

**Source: Research Data (2014)**

**Predictors:** (Constant), inventory management, warehouse management, information management, material handling management, transport management and procurement logistics management.

The six independent variables that were studied (inventory management, warehouse management, information management, material handling management, transport management and procurement logistics management), explain 62.7% of the performance of commercial banks as represented by the  $R^2$ . This therefore means the six independent variables only contribute about 62.7% to the performance of banks while other factors not studied in this research contribute 37.3% of the performance of the banks in Kenya.

**Table 4.18: Multiple Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.646	2.993		.550	.621
Inventory management	.165	.647	.170	.255	.0315
Warehouse management	.119	.281	.029	.067	.0481
Information management	.708	.632	.602	1.121	.0140
Material management	.130	.687	.092	.189	.0322
Transport management	.482	.857	.360	.563	.0237
Procurement logistics management	.327	.222	.016	.077	.0339

**Source: Research Data (2014)**

The researcher conducted a multiple regression analysis so as to determine the relationship between logistics outsourcing and performance of commercial banks in Kenya. As per the SPSS, the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \epsilon$ ) becomes:

$$Y = 1.646 + 0.165 X_1 + 0.119 X_2 + 0.708 X_3 + 0.130 X_4 + 0.482 X_5 + 0.327 X_6$$

Where Y is the dependent variable (performance of the banks in Kenya), X1= Inventory Management; X2= Warehouse Management; X3= Information Management X4= Material Handling Management X5= Transport Management and X6= Procurement Management.

According to the regression equation established, taking all factors (inventory management, warehouse management, information management, material handling management, transport management and procurement logistics management) constant at zero, the performance of banks will be 1.646. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in information management will lead to a 0.708 increase in the performance of commercial banks. A unit increase in transport management will lead to a 0.482 increase in performance of commercial banks; a unit increase in procurement logistics management will lead to a 0.327 increase in performance of commercial banks; a unit increase in inventory management will lead to a 0.165 increase in performance of commercial banks; a unit increase in material management will lead to a 0.130 increase in performance of commercial banks, while a unit increase in warehouse management will lead to a 0.119 increase in performance of

commercial banks. This infers that information management contributes more to the performance of commercial banks followed by transport management.

At 5% level of significance and 95% level of confidence, warehouse management had a 0.0481 level of significance, material management had a 0.0322 level of significance, inventory management showed a 0.0315 level of significance, transport management had 0.0237 level of significance, procurement logistics management had a significance of 0.0339 while information management had a 0.0140 level of significance hence the most significant factor in determining the performance of commercial banks in Kenya.

#### 4.5.3 ANOVA Test

**Table 4.19: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.534	2	1.267	54.455	.024 <sup>a</sup>
	Residual	9.307	40	2.327		
	<b>Total</b>	<b>3.465</b>	<b>42</b>			

**Source: Research Data (2014)**

From table 4.19 above, the significance value is 0.024 which is less than 0.05 thus the model is statistically significant in predicting how inventory management, warehouse management, information management, material handling management, transport management and procurement logistics management affect the performance of commercial banks in Kenya. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 54.455), this shows that the overall model was significant.

To be able to quantify the reliability of the estimates the study made assumption of linearity, the assumption of independence (Durbin Watson test indicated a result of 2.123 meaning that there was no auto-correlation between the residual values), the assumption of constant variance (there was no outliers in the independent variables as the results were less than 0.50) and the assumption of normality (sample size was more than 30; hence met the central limit theorem). These assumptions were met to a significant extent as the results obtained were consistent to the assumptions made and hence positive.

#### 4.6 Challenges faced in Outsourcing Logistics in Commercial Banks

The study further sought to establish the extent to which various challenges are experienced in the organizations in outsourcing logistics. The results are tabulated on table 4.20.

**Table 4.20: Challenges faced in Outsourcing Logistics in Commercial Banks**

Statement	Mean	Std dev.
Lack of appropriate technology	4.1200	.65900
Failure to integrate logistics outsourcing in commercial banks	3.8800	.74615
Lack of information about outsourcing logistics	3.7800	.78999
Lack of appropriate business process need in achieving logistics outsourcing practices	3.6800	.84370
Lack of tools to optimize the supply chain	3.6400	.96384
Employees resistant to change	4.0600	.84298
Government policies	3.7200	.80913
Lack of top management commitment	4.5400	7.19470
Risk associated with Logistic outsourcing has increased	3.5800	1.03194

**Source: Research Data (2014)**

Majority of the respondents indicated that their banks experienced challenges of lack of top management commitment to a great extent as shown by a mean score of 4.5400, lack of appropriate technology to a great extent as shown by a mean score of 4.1200, employees resistant to change to a great extent as shown by a mean score of 4.0600, failure to integrate logistics outsourcing in commercial banks to a great extent as shown by a mean score of 3.8800, lack of information about outsourcing logistics to a great extent as shown by a mean score of 3.7800, government policies to a great extent as shown by a mean score of 3.7200, lack of appropriate business process need in achieving logistics outsourcing practices to a great extent as shown by a mean score of 3.6800, lack of tools to optimize the supply chain to a great extent as shown by a mean score of 3.6400 and risk associated with logistic outsourcing has increased to a great extent as shown by a mean score of 3.5800.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter deals with the summary of the research findings, the end results that have been found from chapter four of the research. It also draws the conclusions that have been made from this research, as well as recommending on areas worth of further research.

#### **5.2 Summary of the findings**

This research was done so that logistics outsourcing and the performance of commercial banks can be established and the probable solutions can be found. The factors can be external or external. This research found that in total commercial banks are composed of a group of people who are adults and below fifty years of age. Only a few people work in commercial banks for a long time, most of them work for not less than five years. Most commercial banks are spread worldwide. Most people believe that most commercial banks rely on outsourcing of advice, employees, and ideas from outside the country. Example is the outsourcing warehouse management. Some challenges however have been faced while outsourcing. Inappropriate technology is a great area that largely affects the logistics department in commercial banks; this is because this department is not well integrated to ease this section.

Lack of information about this sector, affects so many operations. This is because they like the tools that are very appropriate for this sector. So many employees according to this study are resistant to change. Government policies also influence so many areas. Some areas need government flexibility in order to work well. Some recommendations have been proposed through the findings such as there has to be established reliable people if possible from the government, who will be well financially supported. The procurement sector has to be made effective and strong by the various sectors of the commercial banks. The external factors that really affect the running of most commercial banks are reliability factors such that the top most officials who can be relied on are not supportive enough to the banks.

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### **5.3 Conclusion**

This study concludes that logistic outsourcing by commercial banks with respect to their performance is an imminent exercise, which is highly practices and endowed to these institutions. In lieu of the challenges which these banks face in their process of outsourcing logistic services, it can however be concluded that these are practices that add value to the banks overall competitive margins in the industry they operate in.

Significantly also, it can be concluded that logistic outsourcing being a non-core activity by the banks is however well established and endowed in these institutions.

As much as the results of the analysis reveal that the banks are less faced with the various challenges there is however dire need to isolate these challenges as areas prone to leading to reduced performance by the banks.

### **5.4 Recommendations**

The study found out that commercial banks had adopted transportation management, warehousing management and material handling management. It therefore recommends that the organisations should adopt those practises that would guarantee them competitive advantage in the competitive environment and that the same time they outsource the processes to the organizations that provide high quality services which will achieve the desired objectives.

The study also found out that outsourcing of processes by the organisations has influenced its performance and it is recommended that commercial banks should continue outsourcing other services which they do not have competitive advantages over its competitors so that they can continue improving performance.

### **5.5 Limitations of the Study and Suggestions for Further Research**

The study was limited to commercial banks that operate in Kenya only. However, it would have been more rational to include all the banks and non-bank financial institution in Kenya, for a more extensive and deeper study into this issue. Time limitation and the sample of respondents were also important issues that were done in limited scope.

Perhaps, using some other methods of data collection would have yielded different and more pronounced results.

Given the above shortcomings therefore, the study recommends further research to address how the issue of logistic outsourcing and performance among commercial and other non-financial institution in Kenya. The inclusion of non-bank financial institutions and other intermediaries will help to explore if there is any divergent relationship between this study and such future more expounded studies.



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## APPENDICES

### Appendix 1: Research Questionnaire

#### Introduction

This questionnaire has been designed for the sole purpose of collecting data on the Logistics Outsourcing and Performance of the commercial banks in Kenya. The data collected will be treated with a very high degree of confidentiality and it is meant for academic purpose only.

#### Section A: General Information

1. Gender Male ( ) Female ( )

2. What is your age bracket? Tick as applicable)

a) Under 30 years ( )

b) 31- 40 years ( )

c) 41-50 years ( )

d) Over 50 years ( )

3. How long have you worked with the Organization?

a) Less than 5 years ( )

b) 5-10 years ( )

c) Over 10 years ( )

4. How long has your company been in operation?

a) Less than 5 years ( )

b) 6-10 years ( )

c) 11-15years ( )

d) Over 16 years ( )

5. Do you operate in other countries outside Kenya Yes ( ) No ( )

If yes, please give the countries that you operate in  
.....

**Section B: Extent of Logistic outsourcing among commercial banks in Kenya**

6. Please indicate the extent to which you agree with the following statements on the extent to which your organization has been practicing the following logistics practice Use the scale of 1- Not at all 2- Small Extent 3- Moderate extent 4- Large extent 5- Very large extent

Inventory Management		1	2	3	4	5
1	Proper flow of inventory					
2	Inventory accuracy has been achieved					
3	Good inventory turns/ proper space utilization					
Warehouse Management		1	2	3	4	5
1	Good housekeeping practices have been achieved by the org					
2	Proper receipt procedures have been undertaken by staff					
3	Less damages to commodities due to proper storage					
4	Staff welfare has been achieved due to implementation of health and safety standards					
Information Management		1	2	3	4	5
1	Visibility between various departments in the organization					

2	Paperless operation in the organization					
3	Availability and proper flow of information in the organization					
4	My organization utilizes information technology in coordinating its activities with suppliers					
	Material Management	1	2	3	4	5
1	Quality check on the materials					
2	Adoption of modern storage infrastructure					
3	Efficiency due to use of modern material handling equipment					
4	The supplier to the organization show compliance with particular regulations such as emissions caps , hazardous material labeling , product specification and having environment related documentation, this has enhanced quality of the product delivered					
	Transport Management	1	2	3	4	5
1	Vehicle scheduling has improved					
2	Route optimization has been achieved					
3	Fleet tracking tools have increased vehicle visibility					
	Procurement Logistics Management	1	2	3	4	5
1	My organization practices transparent sourcing of suppliers					
2	Good supplier relations is maintained by the organization					
3	Effective information delivery is maintained with the supplier of services and provider					
4	In the assessing the potential outsourcing services, the organization's benchmarks to determine whether the company meets your targets					

7. Any other? Please indicate

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 .....

**Section C: Relationship between Logistics Outsourcing and Organizational Performance**

8. State the extent to which you agree with the following statement concerning your organization performance in relation to the outsourced practices you adapted Scale 1- Not at all 2- Small extent 3- Moderate extent 4- Large extent 5- Very large extent

	Inventory Management	1	2	3	4	5
1	Logistics outsourcing has led to reduction in lead time					
2	Logistics outsourcing has made the organization to achieve timely delivery of services to clients					
3	Orders and deliveries are easily processed to avoid delays					
	Warehouse Management	1	2	3	4	5
1	Database of the supplier can be easily maintained					
2	All activities and processes are pulled into a central database					
3	Incoming stocks are properly recorded after receiving from suppliers					
4	Stock bins and other recording methods a well enhanced					
	Information Management	1	2	3	4	5
1	The organization has achieved the use of modern tool in offering its services					
2	Sharing of information improves organizational performance					
3	Information moves faster and this reduces lead time in the organization					
4	Maximum security is accorded against information proliferation					



Material Management		1	2	3	4	5
1	All incoming material are adequately safeguarded					
2	A database for all receivables and outgoing material is available					
3	Adequacy in staffing to undertake material management is in place					
4	Material tendering and purchases done on merit					
Transport Management		1	2	3	4	5
1	Monitoring of stock movement is made easier					
2	Organization applies optimal transport system					
3	Adequate logistical function is one core attribute in the organization					
Procurement Logistics Management		1	2	3	4	5
1	Logistics outsourcing leads to higher profitability					
2	Logistics outsourcing has led to overall sustainability of the firm					
3	Logistics outsourcing has improved productivity					
4	The organization recognizes the role of logistics in its functions					

9. Any other important issue? Please indicate

.....  
.....  
.....

**Part D: Challenges faced in Outsourcing logistics in commercial banks**

10. Please tick the extent to which the following challenges are experienced in your organizations in outsourcing logistics. Use the scale 1. Very large extent 2. Large extent 3. Moderate extent 4.Small extent 5. Very small extent

No	Statement	1	2	3	4	5
1	Lack of appropriate technology					
2	Failure to integrate logistics outsourcing in commercial banks					
3	Lack of information about outsourcing logistics					
4	Lack of appropriate business process need in achieving logistics outsourcing practices					
5	Lack of tools to optimize the supply chain					
6	Employees resistant to change					
7	Government policies					
8	Lack of top management commitment					
9	Risk associated with Logistic outsourcing has increased					

11. Any other challenge? Please indicate

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**THANK YOU**

## Appendix II List of Commercial Banks in Kenya

1	African Banking Corporation Ltd
2	Bank of Africa Kenya Ltd
3	Bank of Baroda (K) Ltd
4	Bank of India
5	Barclays Bank of Kenya Ltd
6	CFC Stanbic Bank Ltd
7	Charterhouse Bank Ltd
8	Chase Bank(K)Ltd
9	Citibank N.A.Kenya
10	Commercial Bank of Africa Ltd
11	Consolidated Bank of Kenya Ltd
12	Co-operative Bank of Kenya Ltd
13	Credit Bank
14	Development Bank of Kenya Ltd
15	Diamond Trust Bank (K) Ltd
16	Dubai Bank Kenya Ltd
17	Eco Bank Kenya Ltd
18	Equatorial Commercial Bank Ltd
19	Equity Bank Ltd
20	Family Bank Ltd
21	Fidelity Commercial Bank Ltd
22	G.T Trust Bank
23	First Community Bank Ltd
24	Giro Commercial Bank Ltd
25	Guardian Bank Ltd
26	Gulf African Bank Ltd
27	Habib Bank A.G Zurich
28	Habib Bank Ltd
29	Imperial Bank Ltd

30	I and M Bank Ltd
31	Jamii Bora Bank Ltd
32	Kenya Commercial Bank
33	K-Rep Bank Ltd
34	Middle East Bank (K)Ltd
35	National Bank of Kenya Ltd
36	NIC Bank Ltd
37	Oriental Commercial Bank Ltd
38	Paramount Universal Bank Ltd
39	Prime Bank Ltd
40	Standard Chartered Bank (K) Ltd
41	Trans- National Bank Ltd
42	Victoria Commercial Bank Ltd
43	UBA Kenya Bank Ltd

Source Banking in Kenya.com/banking-Kenya (CBK 2014) 0930hours 13/05/2014