

Influence of Logistics Outsourcing on Performance of Large Retail Firms in Nairobi City County, Kenya

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Abstract

The current study sought to establish the influence of logistics outsourcing on the performance of large retail companies in Nairobi County, Kenya. The study adopted a descriptive research design and the targeted 32 large retail companies in Nairobi Central Business, Nairobi County, Kenya. The unit of observation comprised of procurement personnel in the firms. A census was used whereby all the 32 companies were included in the study. A structured questionnaire was used to collect data for the study which was analysed through mixed-method, where both qualitative and quantitative data were incorporated. The findings were presented in form of figures and tables. The study findings established that transport outsourcing and financial services positively and significantly influence performance of large retail firms in Nairobi County. The study recommended that the management of large retail firms should focus on enhancing transport outsourcing practices since the practice bears a positive and significant influence on performance of the firms. The management can achieve this by having transport outsourcing practices that transfer the risks of transportation operations to the logistics provider, that protects the organization from penalties, a Transport Management Software technology provides the custom data you desire, that increases operational control and that makes sure transportation operations never fall victim to the constantly changing supply chain environment. The study also recommends that the management of large retail firms should capitalize on outsourcing financial services since the practice bears positive and significant influence on performance of the firms

Keywords: transport outsourcing, financial services, logistics outsourcing, performance, large retail companies

Introduction

Outsourcing by firms can be defined as planned or tactical, long-term or short term and touchable or untouchable (Sohal and Beaumont, 2004). Sinha *et al.* (2011) have established an outsourcing context namely transaction cost approach, main competences method and networks, treaties and internalization method. The transactional cost method gazes at all the cost issues associated with the outsourcing choices comprising the concealed costs of handling the transaction (Agrawal *et al.*, 2010). The choice to subcontract comes with great uncertainties and concealed costs (Sanders *et al.*, 2007). Transaction costs related to outsourcing means the real cost decrease might not be as much as the firm expected. There might likewise be another characteristic uncertain of loss of quality control (Kaya & Ozer, 2009).

The present firm surroundings and difficulties effecting firms have enforced management to concentrate extra on logistics outsourcing hence its significance cannot be underlined. Firms are below extreme pressure to enhance profitability, client facility, and market share in the worldwide economy. Lynch (2000) has termed logistics outsourcing as an arrangement whereby a firm hand over a facility might have done within a logistics facility supplier. Logistics outsourcing is about outsourcing logistic actions to firms armed to do so. Rabinovich *et al.* (1999) have termed logistics outsourcing as lengthy or short term agreements or treaties amid industrial or service firms and third-party logistics suppliers. Firms have been looking for cost reserves; therefore, they focus on their main know-how, with the market and the firm physical appearance impacting the choice to outsource to third-party logistics suppliers. Gritta and Chow (2002) claim that there are numerous firms giving logistics facilities like transport, custom authorization, forwarding facility, warehouse and delivery. These are exterior contractors carrying out a firm's logistics facilities. This service delivery contrasts from traditional facilities restricted to one main logistics process whereby they just

strategize and control precise processes to those that enhance a great extent of organization facilities through several logistic procedures. Contract logistics, association marketing, incorporated logistics organization, fourth-party logistics, supply chain incorporation, third party supply chain management and lead logistics organization have all been used to refer to these logistics suppliers (Ravi,2001; Lambert and Stock,2001). According to Langly *et al.* (2002) these names can be used interchangeably. Lynch (2000) claims that whereas the term third parties, as well as fourth-party logistics, are normally used, they can be to a certain extent unclear.

Large retail companies have been known to make an immense contribution to the economic growth and development through employment creation, contribution to taxes as well as promoting other sectors such as manufacturing through retail of their products. Kenya's retail industry is said to have huge potential as it is largely untapped, with the penetration of formal retailers at a low 30% despite a growing middle class. However, the country is not very attractive for investors in the industry due to a mix of factors that include a difficult business environment and low economic growth rates that translate to a longer waiting 5 period for returns on investment (PWC, 2014). The large and growing Kenyan population is set to provide steady and ever-growing demand for retail products. In addition, the anticipated entry and expansion of international retailers are set to continue driving growth. The increasing rate of urbanization at 4% per annum (KIPPRRA, 2013), rapid growth in the Kenyan middle class and rising demand for specific goods and services are set to combine with Kenya's overall positive economic outlook to boost growth in retailing.

However, the supply chain in these companies has been underperforming a matter that has continually affected their effectiveness and efficiency translating to poor performance and competitiveness. It has been previously reported that about 20% of some big retail companies in the country, such as Uchumi Supermarkets and Nakumatt Supermarkets have met their underperformance fate as a result of poor procurement processes, among other factors. Outsourcing has been found to be a critical decision in determining how effective a firm meets the needs of the customers thus promoting its performance. Through logistics outsourcing, the company is able to meet the lead time as well as creating customer confidence through availing the required merchandise as specified. Outsourcing in large retail companies has been the norm since most of the products sold by the companies are not produced there. This is to imply that the effectiveness of logistics outsourcing holds the performance of these firms. The question therefore goes; is logistics outsourcing given adequate attention in large retail companies and if it does, has it influenced their performance?

Empirical studies have revealed mixed results on the relationship between logistics outsourcing and performance. According to Marchet, Perego, Melacini, Perotti, and Tappia (2012), logistics outsourcing has become a source of corporate failure and disappointment, thus forcing companies to make critical changes in the logistics arrangements and take previously outsourced functions back in-house. Solakivi, Töyli and Ojala (2013), on the other hand noted that outsourcing enhanced the effectiveness and ability of firms to streamline their operations and focus on key business processes thus contributing to better performance. From the evidence portrayed herein, logistics outsourcing is a subject that has been given minimal attention as far as research is concerned. The studies reviewed show mixed results while others focused on different industries and in different locales. The current study, therefore, seeks to fill the existing gaps by unveiling the influence of outsourcing on the performance in large retail companies in Nairobi, Kenya.

Theoretical Review

This study is based on The Principal Agency Theory (PAT). This theory is based on the separation of ownership and control of economic activities between the agent and the principal. Various agent and principal problems may arise including conflicting objectives, differences in risk aversion, outcome uncertainty, behaviour based on self-interest, and bounded rationality. The contract between the principal and the agent governs the relationship between the two parties, and the aim of the theory is to design a contract that can mitigate potential agency problems (Herbert *et al.*, 2007). The "most efficient contract" includes the right mix of behavioural and 14 outcome-based incentives to motivate the agent to act in the

interests of the principal (Logan, 2000). Creating contracts with supply chain partners that balance rewards and penalties, misalignment can be mitigated (Narayanan & Raman, 2004; Baiman & Rajan, 2002). Balancing the need for the shipper and the capability of the outsourcing logistics provider is a well-known managerial issue that explicitly implies the risk of agency problems (Hertz & Alfredsson, 2003). The PAT suggests an “inter-firm contracting perspective” on outsourcing logistics, focusing on the design of an efficient contract between the buyer and seller of logistics services. The idea is to develop the most efficient combination of outcome and behavioural incentives in the contract between the shipper and the outsourcing logistics provider (Herbert *et al.*, 2007).

The extent to which the outsourcing logistics provider’s performance can be measured and controlled has a great effect on whether the provider is paid by actual performance (such as number of orders picked, packed, and shipped to the customers) or according to behavioural outcomes (such as salaries, hours, and/or miles). Not all aspects can be covered ex-ante in the contract. Therefore, the issue of contracting should be a revisiting issue in outsourcing logistics relationships (Herbert *et al.*, 2007). Thus, the food and beverage manufacturing firms can use the PAT theory to mitigate logistics risks and achieve the optimal value of the outsourced services from the outsourcing logistics firms. Because theory provides a useful tool to respond to transaction cost dilemmas through contractual and non-contractual remedies in logistics, it is critical for managers to understand and mitigate logistics challenges associated with behaviour uncertainty, relationship management, collaboration and uncertainty in logistics management.

Empirical Review

The empirical review helps point out studies that have previously been carried out in the area of focus of the study at hand. This sub-section presents the review of previous studies on the relationship between logistics outsourcing and performance. The studies are reviewed systematically based on the variables in the study.

Transport Outsourcing

Antoniolli, Ferreira, Carvalho, Tiradentes and Batista, (2015) conducted research on the outsourcing of logistics transportation. The research targeted at examining the transport industry in Brazil and the standards for the outsourcing of business transport through case research in Brazilian manufacturing of leather sector, which subcontracted its transport delivery process. As an outcome of this process, this firm could save 60% of its transport expenses and enhanced its facility level, which produced an extra 3.5% on its income. These study outcomes are important in terms of transport outsourcing choice standards, being a planned choice in operations; therefore, in managerial terms, this outsourcing procedure may well make the firm’s delivery transportation ability more flexible and agile.

Qureshi, Dinesh and Pradeep, (2014) conducted a study that aimed at design was to show the key factors of logistics redistributing connection among shippers and logistics specialist co-ops and to think about their impact on efficiency and intensity of the shipper organization. An interpretive auxiliary demonstrating based methodology was utilized to display the factors of logistics re-appropriating relationship. These factors were named empowering agents, those who lift the "relationship bond" among shippers and calculated specialist organizations and result factors emerging out of redistributing connection among shippers and logistics specialist organizations. Discoveries were that various empowering agents impact the shipper's association with strategic specialist organizations, that outcomes into efficiency upgrade and aggressiveness.

Mwale, (2014) led an examination on the production network the executives rehearses and authoritative execution of enormous assembling firms in Nairobi, Kenya. The point of the investigation was to decide the impact of the production network the board rehearses on authoritative execution among huge assembling firms in Kenya. The investigation had two destinations, to set up store network the board practices embraced by enormous assembling firms in Kenya, and to decide the impact of production network the board rehearses on authoritative execution of huge assembling firms in Kenya. The examination configuration

included a cross-sectional review of 46 huge assembling organizations in Nairobi, Kenya. Information was gathered utilizing a poll that was managed through a "drop and pick" technique.

Mean and the standard deviation was utilized to break down target one though relapse investigation was utilized to examine the impact of store network the executives rehearses and authoritative execution among enormous assembling firms in Kenya. The findings are introduced in tables. Unmistakably there is a noteworthy connection between inventory network the board rehearses and hierarchical execution clarified by the seven free factors vital provider association, client relationship, the dimension of data sharing, nature of data, degree of re-appropriating, lean practices and delay. The investigation just centered around the enormous assembling organizations in Nairobi. Along these lines, the analyst prescribes further research on different firms that are not situated in Nairobi and are not in the assembling business. The analyst has likewise prescribed that future research develop the area of inventory network the board rehearses by thinking about extra measurements and furthermore try to use numerous respondents to improve research findings.

Despite transportation being considered an ancillary activity in the supply chain management, it can be a source of competitive advantage for a business. An effective supply chain strategy must need to address the logistical drivers especially transportation very effectively. Owing to the importance of transportation, various businesses have incorporated different strategies in their effective management (ref). According to (ref), transport outsourcing is regarded as the vital business activity which is being outsourced for the sake of the firm's performance improvement.

During a production plan preparation, it is vital to know exactly when the material will be delivered. Concentrate on client needs' fulfillment, request satisfaction, short travel time, on-time conveyance, gives transport costs another measurement. Except if significant support stocks are kept, the creation plan depends on precise evaluated conveyance dates. Postponements, lacking or off base conveyance data can be amazingly expensive as the outcome could be creation down-time (ref). Travel times influence the money to-money cycle for general organizations. Long travel times imply later installment and adversely influence the income. Money is tied up in stock in-travel that could somehow, or another have been utilized somewhere else, adding to promote income age by the organization. Along these lines, Transport is required all through the entire production network is the connection between inventory network individuals. Since interest and supplies have turned out to be worldwide procedures, the short lead time is particularly significant for organizations that work in universal or worldwide conditions. Subsequently, nature of transport administration influences the aggressiveness of the whole supply chain.

Financial Services Outsourcing

Jiang and Qureshi (2012) carried out a study to determine the effect of financial management on the manufacturing firm's performance. The scientists, through their examination discoveries, brought up that the impact of fund the board is as yet dubious and an unexplained riddle. The examination additionally called attention to that in spite of the fact that the center business of huge assembling firms is essentially to make, regardless they have to acquire materials for generation, distribution center and oversee stock and transports fabricated items to the end clients and that is the place account is most viewed as angle. Be that as it may, the investigation did not audit the impact of account administration re-appropriating rehearses on inventory network execution thus a hole which is tended to in the present examination.

Vishal (2013) completed an investigation on the outsider strategic deterrents in assembling businesses. The examination established that outsider logistics suppliers assume essential jobs in cost decrease, profitability, benefits just like the improvement of the administration nature of their clients and in this way become a significant piece of store network the executives. Fruitful logistics re-appropriating can give huge advantages, both to businesses and outsider logistics suppliers. The redistributing of logistics exercises, fabricating enterprises can save money on capital speculations, and. decrease money related dangers. The destinations and concerns identified with TPL logistics redistributing are cost reduction, increase of delivery

time, concentration on core competencies, increasing flexibility and concerns are loss of control, dependence on service provider, losing direct customer contact. The main challenges for TPL services providers are to maintain relationship with customers and at the same time to earn profits under price pressures from customers also delivering the services in different geographical regions.

Kimulu (2014) did a study on logistics outsourcing and the performance of banks in Kenya. A descriptive research configuration was utilized dependent on the number of inhabitants in 43 banks in Kenya and information gathered through a standard survey. The information was dissected by the utilization of graphic measurements and relapse examination. The discoveries were that coordinations re-appropriating was entrenched and enriched in these organizations, increase the value of the banks generally speaking aggressive edges in the business they work in. are less looked with the different difficulties?

Financial institutions have turned out to be exceedingly dependent on outsourcing basic business procedures to outer specialist co-ops. Foundations are progressively exploiting redistributing to bring down expenses and obtain higher-quality administrations to continue their upper hand. The financial services outsourcing market is assessed to be worth \$130 billion and is anticipated to develop by a yearly rate of 7.46% somewhere in the range of 2016 and 2020. Although the development and extension of outsourcing in past decades have expanded efficiency and, along these lines, profited foundations, there is additional proof that redistributing has produced new dangers (Götz & Tröger, 2017). A portion of these dangers likewise come from the way that increasingly monetary establishments are depending on a little gathering of sellers. For instance, organizations re-appropriating digital security capacities can choose from just few outsider providers for IT-related assignments.

The increasing competition in the large retail companies has constrained them to ensure their disintegrating edges by holding their clients by offering some benefit included administrations through re-appropriating. Redistributing helps in achieving key destinations by diminishing expense and expanding the productivity through the unburdening of the non-center administration exercises. Basically, the outsourcing of retailing exercises is quickening at a fast pace. So as to have an aggressive edge, retailers have begun outsourcing enormous volumes of their non-center administrations.

In any case, there are various dangers associated with the way toward outsourcing to an outsider, as it requires a total security system to manage the voluminous measure of information that they have with them (European Parliament, 2017). Depending a lot on the outsider may likewise prompt certain dangers, for example, agreeing to guidelines, loss of authority over the business, spillage of significant information, and so forth.

Methodology

The study used a descriptive research design to help in indicating trends in attitudes and behaviors and enable the generalization of the findings of the research study to be done. The target population for this study comprised of large retail companies in Nairobi County. The study used a census to obtain 128 respondents drawn from the 32 companies since the population is relatively small. A Census is unique in that it provides the possibility of examining small and special population groups, and acquiring information on small geographic units (Israel, 1967). The primary data was gathered by use of structured questionnaires and captured through a 5-point likert scale type. This study used Cronbach's Alpha (α) scale of 0.7 as an internal consistency measure computed as a coefficient ranging from 0 and 1 (Cronbach, 1951). It indicates the extent to which a set of items can be treated as measuring a single latent variable (Cronbach, 1951). Quantitative data was tabulated and frequencies used to calculate percentages, which were presented in graphs and pie charts to explain the phenomena. Measures of dispersion gave information about the spread of the scores in the distribution. SPSS software was used to analyze closed-ended questions. To quantify the strength of the relationship between the variables, the study used both correlation and multiple regression analysis. The regression model that was used for the purpose of establishing the relationship between dependent and independent variables of the study is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Whereby Y = Performance

X_1 = Transport outsourcing

X_2 = Financial service outsourcing

β_1, β_2 = unknown parameters to be determined

ε = Error term

Findings and Discussion

This chapter contains an outline of the findings of the study comprising of the rate of response, both descriptive and inferential statistics comprising of correlation and regression analysis. A total of 128 questionnaires were administered to the target respondents comprising of procurement managers, transport managers, finance managers and operations managers from large retail companies in Nairobi County. From the issued questionnaires, a total of 112 were fully filled and returned by the respondents. This presented a response rate of 87.5%. This rate of response was appropriate for analysis and for making a conclusion as stipulated by Mugenda and Mugenda (2013), who advocate for a response rate of above 50%. The researcher anticipated that the respondents of the study would have tight schedules and this prompted allocation of enough time, which greatly contributed to the high response rate.

Descriptive and Correlation Results

Descriptive statistics according to Mugenda (2008) enables usage of statistics by the researcher in describing measures of scores in the distribution. The responses of the study were rated on a scale of 1-5 where 5= Strongly agree 4= agree on 3=Neutral, 2= Disagree and 1= Strongly Disagree. The researcher presented the mean score and mean standard deviation on each of the statements in all the variables. Respondents agreed with the statements on transport outsourcing as shown by average response mean of 4.05 and average std.dev of 0.79. The results concur with Qureshi, Dinesh and Pradeep, (2014), who revealed that transport outsourcing is regarded as the vital business activity which is being outsourced for the sake of firm's performance improvement. Respondents agreed with the statements on financial service outsourcing as shown by average response mean of 4.012 and average std.dev of 0.686. The results concur with Vishal (2013), who established that financial services outsourcing save money on capital speculations and decrease money related dangers. Respondents agreed with the statements on performance of supply chain, as shown by average response mean of 4.01 and average std.dev of 0.65. The results concur with Nemoto and Tezuka (2012), who revealed that joint application of various outsourcing practices positively contributes to improved performance in the supply chain. Table 1 presents the correlation analysis results. The correlation results show that transport outsourcing and performance correlates as shown by a correlation value of 0.325 and a p-value of 0.012. This shows a positive and significant correlation implying that increasing transport outsourcing practices increases performance of supply chain in large retail firms in Nairobi County. The findings are consistent with Qureshi, Dinesh and Pradeep, (2014), who revealed that transport outsourcing is regarded as the vital business activity which is being outsourced for the sake of a firm's performance improvement. The correlation results also show that financial service outsourcing and performance correlates as shown by a correlation value of 0.402 and a p-value of 0.002. This shows a positive and significant correlation implying that increasing financial service outsourcing practices increase performance of supply chain in large retail firms in Nairobi County. The findings are consistent with Vishal (2013), who established that financial services outsourcing save money on capital speculations and decrease money related dangers.

Table 1 Descriptive and Correlation Results

	MEAN	STD	Performance of large retail firms	Transport Outsourcing	Financial Service Outsourcing
Performance	4.01	0.65	1		
Transport Outsourcing	4.05	0.79	.325**	1	
Financial Service Outsourcing	4.012	0.686	.402**	.021**	1

** Correlation is significant at the 0.01 level (2-tailed).

Multiple Regression Analysis

The study assessed the statistical relationship between independent variables (transport outsourcing, financial service outsourcing, distribution outsourcing and warehousing outsourcing) and dependent variable (performance) through multiple linear regression analysis. The results in table 4.8 show that there exists a strong relationship between the study variables as shown by $R = .796$. The coefficient of determination (R-square) was found to be .694, implying that 69.4% of variation in the performance of supply chain in large retail firms in Nairobi County can be accounted by transport outsourcing, financial service outsourcing, distribution outsourcing and warehousing outsourcing. The statistical significance of the model of the study was assessed through ANOVA tests. The results presented in table 4.9 presents shows that the overall model linking transport outsourcing, financial service outsourcing, distribution outsourcing and warehousing outsourcing with performance was statistically significant. The significance level was confirmed by comparing the value of F calculated and the value of critical. The F calculated value (74.948) exceeds F critical value (2.4472) implying that the overall model is statistically significant.

The coefficients results of the model presented in table 4.10 show that transport outsourcing has a positive and significant influence on performance as shown by $\beta = 0.506$ and $\text{Sig} = 0.004 < 0.05$. This implies that a unit change in transport outsourcing results in an increase of 0.506 units in performance of large retail firms in Nairobi County. The findings are consistent with Qureshi, Dinesh and Pradeep, (2014), who revealed that transport outsourcing is regarded as the vital business activity which is being outsourced for the sake of a firm's performance improvement.

The coefficients result also show that financial service outsourcing has a positive and significant influence on performance as shown by $\beta = 0.603$ and $\text{Sig} = 0.000 < 0.05$. This implies that a unit change in financial service outsourcing results in an increase of 0.506 units in performance of large retail firms in Nairobi County. The findings are consistent with Vishal (2013), who established that financial services outsourcing save money on capital speculations and decrease money related dangers.

Table 2 Regression Results

Predictors	Unstandardized Coefficients	Standardized Coefficients			
	B	Std. Error	Beta	t	Sig.
(Constant)	0.632	0.192		3.291	0.000
Transport Outsourcing	0.506	0.218	0.484	0.275	0.004
Financial Services Outsourcing	0.603	0.217	0.576	2.779	0.000
Summary Statistics					
R	.796				
R Square	0.694				
Adjusted R Square	0.671				
F	0				
Sig.	74.948				

Conclusion

The findings of the study led to the conclusion that transport outsourcing practices have a positive and significant influence on performance of large retail firms in Nairobi County. The study further established that having transport outsourcing practices that transfers the risks of transportation operations to the logistics provider, that protects the organization from penalties, a Transport Management Software technology provides the custom data you desire, that increases operational control and that makes sure transportation operations never fall victim to the constantly changing supply chain environment bears a positive and significant influences on performance of large retail firms in Nairobi County.

The findings of the study also led to conclusion that financial service outsourcing has a positive and significant influence on performance of large retail firms in Nairobi County. The study further established that frequently outsourcing external auditors to ensure that accountability is embraced in the procurement practices of the firm, outsourcing several banking services to ensure the payment methods are effectively done by the customers, taking proper measures to ensure financial operation in the firm are done by trusted parties to fraudulent bock activities, and outsourcing payment methods from several operators cross the financial market bears a positive and significant influences on performance of large retail firms in Nairobi County.

Recommendations for the Study

The study recommends that the management of large retail firms in Nairobi county should focus on enhancing transport outsourcing practices since the practice bears positive and significant influence on performance of the firms. The management can achieve this by having transport outsourcing practices that transfer the risks of transportation operations to the logistics provider, that protects the organization from penalties, a Transport Management Software technology provides the custom data you desire, that increases operational control and that makes sure transportation operations never fall victim to the constantly changing supply chain environment.

The study also recommends that the management of large retail firms in Nairobi county should capitalize on outsourcing financial services since the practice bears a positive and significant influence on performance of the firms. The management can achieve this by having frequently outsourcing external auditors to ensure that accountability is embraced in the procurement practices of the firm, outsourcing several banking services to ensure the payment methods are effectively done by the customers, taking proper measures to ensure financial operation in the firm are done by trusted parties to fraudulent bock activities and outsourcing payment methods from several operators across the financial market. Consequently, outsourcing accounting information will permit SME owners to manage their firms better and also have access to financial resources more easily. There is also need for the firm to outsource training expertise to train their employees. It is also important to know what, where and how to outsource. This should be the subject of internal and external analysis, and training sessions should be conducted with outsourcing experts who have a deep understanding of the industry and who know how to create and manage outsourcing relationships The current study was conducted on large retail firms located in Nairobi County. The study recommends further studies in other firms either small or large and located in other parts of the country. The study further recommends future studies on study's theme in large retail firms in Nairobi County since transport outsourcing, financial service outsourcing, distribution outsourcing and warehousing outsourcing accounts for only 69.4% of variations in performance of the firms. The remaining 30.6% is accounted by other indicators not included in the study.

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