

LOGISTICS OUTSOURCING DRIVERS, PRACTICE AND CHALLENGES AMONG TEA PROCESSING FIRMS IN KENYA (*Perspectives from Kericho County*)

¹Felix M. Maghanga, ²Peterson Obara
Magutu, and ³S.O. Nyamwange

^{1,2,3}Department of Management Science & Project
Planning, Faculty of Business and Management
Sciences, University of Nairobi, Nairobi, Kenya

magutumop@yahoo.com,
f_mmtuweta@yahoo.com@yahoo.com,
snyamwange@uonbi.ac.ke

Date Received 17/04/2024

Date Accepted 13/05/2024

Abstract

Logistics outsourcing is today viewed as a globally accepted best business practice. Through outsourced logistics organizations can improve; customer services, cut down costs, minimize risk, increase competitive advantage and improve shareholder returns. The study sought to determine logistics outsourcing drivers, practice and challenges among tea processing firms in Kenya. The study surveyed the tea processing firms in Kericho County (Kenya) by collecting primary data through self administered questionnaire. Data was analyzed using descriptive statistics. The study found out that there is a strong drive towards the use of outsourcing as a strategy to reduce costs, to pursue core business activities, reduce risks, and gain competitive advantage. According to the study findings, logistics outsourcing among the tea firms was most prevalent in operations such as warehousing, fleet management, fleet operations, transport and distribution. The survey also established that some of the challenges faced by the firms as they moved to outsource their business activities included loss of control of the activities, loss of employee loyalty, industrial unrests, switching costs, loss of information to competitors and resistance to change by the stakeholders.

Key words: logistics outsourcing, drivers, practice, challenges, tea processing firms and Kenya.

Introduction

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

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

Outsourcing allows a company to concentrate on its core competencies, save money, increase flexibility and manage effective growth. Once the non-core activities are given to the experts to manage, the company is left with the task of managing its core activities. This will help the company to benefit from external expertise and technologies. If successfully managed, outsourcing will also help reduce the cost of doing business and benefit from the use of knowledge and technical resources of another organization. However, companies need to carefully consider whether the benefits of outsourcing a function outweigh the costs. The process of outsourcing will therefore need to be properly managed and monitored. Outsourcing is increasingly receiving great attention globally in a manner in which organizations, such as those in the agricultural and manufacturing industry can improve on customer service, reduce costs, minimize risk, increase competitive advantage and improve shareholder returns (Stock and Lambert, 2009).

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

Kericho County is one of the forty seven counties within the Republic of Kenya. The county has an approximate population of 758,339 people and houses five constituencies all of which fall within the tea production belt. These constituencies include: Ainamoi constituency, Bureti constituency, Konoin constituency, Belgut constituency and Kipkelion constituency (Wikipedia). All these constituencies happen to fall in the tea belt on the South Rift region of Kenya (www.softkenya.com).

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

To date there are 101 licensed tea factories in Kenya. Kenya Tea Development Agency Ltd (KTDA) manages 62 of the factories and the remaining 39 tea factories are managed by other companies, 22 of the factories are located in the Kericho County (www.teaboard.or.ke).

The study background has highlighted broadly the general challenges faced by organizations in seeking to remain afloat and at the same time meet stakeholder demands. The study focus is on

the practices, the drivers and the challenges of outsourced logistics among tea processing firms in the County of Kericho.

Problem of Research

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

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

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

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

Research Focus

A number of studies have been done on outsourcing; Kirui, (2001), conducted a study on competitive advantage through outsourcing of non –core Logistics Activities within the supply Chain of British American Tobacco Kenya, the study covered such areas as transportation, distribution, storage and warehousing. The findings of the study indicated that most of the activities are handled internally by the firm. Chanzu, (2002), undertook a study on “A survey of Business Outsourcing Practices Amongst Private Manufacturing Company’s in Nairobi”, the study focused on human resources, production, and distribution storage and warehousing. The study findings indicated that most firms practiced outsourcing though in a small scale. Serem, (2002), A Survey of the Outsourcing of Human Resources Services by Banks in Nairobi, the focus of the study was specifically on human resource outsourcing and it was found out that the practice of outsourcing of the function was evident in a small proportion amongst the firms. Komen, (2005), A Survey of the Extent of Outsourcing of Human Resource Functions by the Public Service in Kenya, again the focus of the study in the public sector was on human resource outsourcing and the findings indicated that little or no outsourcing was practiced in the sector.

Agure, (2006), conducted a study on ‘Outsourcing of Human Resource Management Services among Large Flower Firms in Kenya’. The firm’s engagement and management of human

resources was the focus of the studies and the findings indicated that the owners of the flower firms managed human resources internally. Hussein, (2006), 'A survey of Outsourcing of Training Services by Commercial Banks in Kenya'. The focus of the study was on the methods used by banks in training their staff. The finds showed that banks used both outsourced training services as well as internal trainers. However, no study has been done on this important sector of managing distribution, warehousing, storage and transportation of employees, goods and services. This therefore, makes it necessary for study to be conducted on this important operational linking tool.

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

The three research objectives were: to establish the drivers of logistics outsourcing among tea processing firms in Kericho County, Kenya; to establish the practice of logistics outsourcing among tea processing firms in Kericho County, Kenya; and to assess the challenges facing tea firms that are outsourcing their logistics operations.

Methodology of Research

The study was conducted in Kericho County Kenya. Tea processing factories within the county are managed by the four major tea processing firms in Kenya; these include: Unilever Tea Kenya (UTK) Ltd, Finlay's, Williamson Tea Kenya (WTK) Ltd and the Kenya Tea Development Agency (KTDA) Ltd. The county provides a good representation of tea processing in Kenya given its strategic position within the tea producing counties in Kenya.

The study adopted a descriptive survey method in determining the outsourced logistics practices among tea processing firms in Kericho County. Gay (1983) describes a survey as an attempt to collect data from members of a population in order to determine the status of that population with respect to one or more variables. The population of the study consisted of 4 tea processing firms with a population of 22 Tea factories within the County. These factories are concentrated in the entire county. The firms are a representation of two main sectors; namely locally owned and multinationals. The list of the firms and the factories was obtained from the Tea Board of Kenya website (<http://www.teaboard.ke.org>).

Method of data collection

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

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

Data Analysis

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

Results of Research

The 22 factories represented the entire population of the tea processing firms in the County, they all responded and this provided a 100% response rate which was sufficient for further analysis.

Drivers of Logistics Outsourcing

In a likert scale of 1-5, respondents were asked to rate the extent to which the listed logistics outsourcing factors contributed to the firms decision to outsource their logistics functions. Table 2 presents the views of the respondents in relation to what is driving the firms towards outsourced logistics operations.

Table 1: Logistics Outsourcing drivers

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

Source: Authors (2011)

From the analysis it can be deduced that the most popular driver of logistics outsourcing is that outsourced logistics operations helps firms reduce the cost of doing business, secondly the

availability of third party service providers motivates firms to outsource their logistics operations, thirdly most firms viewd outsourcing as a global best business practice; fourthly the urge to concentrate on core business activities, Globalization of business and availability of a supportive logistics infrastructure, fifthly logistics functions are non-core to the tea processing firms and the fact that government policies do not inhibit the firms from adopting outsourced logistics.

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

The Practice of Logistics Outsourcing

Table 2: Modes of Logistics operations

	% Mean	Ranking
Warehousing	67.5	1
Fleet Management	67.5	1
Fleet Operations	67.5	1
Transport	62.5	4
Distribution	57.5	5
Fleet Maintenance	40	6
Logistics Operations	0	7

Source: Authors (2011)

Based on the foregoing results from the respondents approximately 67.5% of the respondents indicated that their firms have outsourced their warehousing, fleet management and fleet operations. 62.5% of the respondents indicated that they have outsourced their Transport operations, while 57.5 % preferred outsourcing their distribution function. Fleet maintenance, warehousing and transport management are the least preferred outsourced functions with a 40% and 0% preference rate. This provided an overall logistics outsourcing preference rate of approximately 52%.

Table 3: Logistics Outsourcing Practices

	Mean	Ranking
Have both an in-house logistics department	3.375	1
Hires logistics services during peak seasons?	3.375	1

Rely on logistics services used by competitors	3.375	1
Contracted a third part to manage its logistics services	3.125	4
Mergers and acquisitions	2.875	5
Owens a logistics subsidiary	2.875	5
Practice E-outsourcing	2	7
Strategic alliances with logistic service providers	0	8

Source: Authors (2011)

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

The Challenges of Logistics Outsourcing

Respondents were required to rate in a likert scale the challenges faced by the tea processing firms in their endeavour to outsource logistics operations. As a result of this the respondents views are presented in the table 4 below:

Table 4: Logistics Outsourcing Challenges

	mean	Ranking
Loss of control on logistics functions	3.8	1
Industrial unrest	3.8	1
Disintegration of internal conflict	3.3	2
Loss of employee loyalty	3.2	3
Low quality of work	2.9	4
Switching cost	2.8	5
Information leakage occurs from service providers	2.6	6
Over reliance on external parties	2.6	6
Over reliance on service providers	2.4	7

There is loss of command on service delivery	1.8	8
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Source: Authors (2011)

Loss of control on logistics operations and industrial unrests were the most prevalent of the challenges the tea firms were facing. These were followed by disintegration of internal conflict and loss of employee loyalty. Respondents reported that the quality of work also deteriorated, the effects of switching costs and information leakage as well as overreliance on third party service providers. Loss of command on service delivery was the least prevalent among the challenges reported by the respondents.

Discussion

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

Some tea processors also indicated that they do not have the expertise to handle their logistics activity and hence preferred to outsource the functions. Others indicated that the drive to outsource was part of their international policy, the need to take advantage of technology and innovation was also indicated as a drive by some firms to outsource their logistics operations. The drive to improve productivity was the least preferred driver to logistics outsourcing. Much as some traits of logistics outsourcing drivers have been evidenced in most of the tea processing firms and factories, most of the firms are very appreciative of the adoption of these drivers for the success of their businesses.

For example most of the firms reported that their main reason to outsource was the urge to reduce cost while, others were motivated by the availability of outsourcing or 3 party logistic service providers, an impressive factor was that some of the firms were driven by the desire to adopt it as gesture to adopt internally accepted best practices. Clearly this is a sign that firms in the tea sector are concerned about the values of Globalization of businesses which is one of the major tenets of strategic business operations.

The results of the analysis clearly indicate the level of adoption of a logistics outsourcing practice among the tea processing in Kericho County Kenya. The results of the survey provided an insight on the extent to which the tea firms practice both in-house and outsourcing logistics practice. Hired logistics services during peak seasons and the use of logistics service providers used by competitors was a prevalent practice adopted by the tea processors, hence giving an indication of the level of logistics outsourcing practices being adopted by the tea processors. Other practices that the tea firms have been utilizing included contracting third party service providers (3PL), as well as owning a logistics subsidiaries to handle some specific tasks, mergers and acquisitions have also been viewed as potential strategic practices. E- outsourcing was reported as a rare preference for most tea firms probably due to lack of supportive infrastructure within the markets. Strategic alliances with logistics service providers is not practiced at all this may be the

practice of the future given that currently the tea firms are even not scared of sharing service providers. This may be an acceptable practice in the short term but once competition strikes the firms will begin to venture into strategic business alliances so as to curb the effects of business competition.

The management of the firms needs to invest more by acquiring knowledge and skill on the management of the logistics function. They may in addition seek to invest more on research and develop stronger and long-term ties with the logistics service providers. This is mainly because the survey does not give any clue about long-term synergistic relationship. When firms or individuals partner in any mutual understanding, they double their efforts with other accompanying benefits.

In the middle of every success there will always be challenges, but the challenges must be viewed as positive indicators for continuous improvement. During the survey respondents concurred that indeed logistics outsourcing is not without challenges. The challenges that were highlighted included; Loss of control on logistics operations and industrial unrests were the most prevalent of the challenges that were being faced by the tea processing firms. These were followed by disintegration of internal conflict and loss of employee loyalty. Respondents reported that the quality of work was found to be deteriorating, the effects of switching costs and information leakage as well as overreliance on third party service providers. Loss of command on service delivery was the least prevalent among the challenges reported by the respondents.

As an objective measure towards logistics outsourcing and as a means towards continuous improvement, firms need to appreciate the challenges that come together with the package of successful adoption of new ways of doing business. The unfolding events can be referred to as indicators to the successful implementation of a outsourced logistics practice. If progressively monitored and used as corrective benchmarks through the implementation these challenges will enable the tea processing firms to fully adopt outsourced logistics practices thereby achieve their key objective of cost reduction. Renowned theories of management have been able to address the issues of change management as the key to the successful implementation of any change.

Conclusions

The study found out that there is a strong drive towards the use of outsourcing as a strategy to reduce costs, to pursue core business activities, reduce risks, and gain competitive advantage. According to the study findings, logistics outsourcing among the tea firms was most prevalent in operations such as warehousing, fleet management, fleet operations, transport and distribution. The survey also established that some of the challenges faced by the firms as they moved to outsource their business activities included loss of control of the activities, loss of employee loyalty, industrial unrests, switching costs, loss of information to competitors and Resistance to change by the stakeholders.

The study has opened up a number of gaps that can be addressed in further research, firstly the study covered tea processing in Kericho County, yet there are other tea belts such as Kisii and Nyeri, Kiambu, Murang'a Embu and Meru which may require a study of their own. Secondly there will be need for further research on the management of logistics outsourcing on the larger agricultural sector.

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