

University of KwaZulu-Natal

**The effects of outsourcing the logistics function at
South African manufacturing companies**

By

Shaun Brendan Soodyall

203514208

**A dissertation submitted in partial fulfilment of the requirements
for the degree of
Master of Business Administration**

**Graduate School of Business and Leadership
College of Law and Management Studies**

Supervisor: Professor Anesh Maniraj Singh

2013

Declaration

I, Shaun Brendan Soodyall declare that:

- (i) This research reported in this dissertation, except where otherwise indicated, is my original work.
- (ii) This dissertation has not been submitted for any degree or examination at any other university.
- (iii) This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- (iv) This dissertation does not contain other persons' writing, unless specifically acknowledged as being sourced from other researchers.

Where other written sources have been quoted, then:

- a) their words have been re-written but the general information attributed to them has been referenced;
 - b) where their exact words have been used, their writing has been placed inside quotation marks, and referenced.
- (v) Where I have reproduced a publication or which I am an author, co-author or editor, I have indicated in detail which part of the publication was actually written by myself alone and have fully referenced such publications.
 - (vi) This dissertation does not contain text, graphics or tables copied and pasted from the internet, unless specifically acknowledged, and the source being detailed in the dissertation and in the references section.

Signed: _____

Acknowledgements

This research project would not have been possible without the support of many people.

I would like to express my gratitude to my supervisor, Professor Anesh Maniraj Singh, who was abundantly helpful and offered invaluable assistance, support and guidance.

I also wish to express my love and gratitude to my beloved family, especially Vaniera, Eryn and Jordan Soodyall, for their understanding and endless love, through the duration of my studies.

To my friends, Stephanie Nair and Ryan Reddy, we made it!

A special thanks to all my respondents, for taking the time and providing valid and meaningful information to work with.

Abstract

Logistics is an integral part of every economy and every business entity. The worldwide trend in globalisation has led many organisations to outsource their logistics function to third-party logistics (3PL) companies and focus on their core competencies. It is therefore imperative that organisations fully understand the implications of outsourcing so that a well thought-out strategy will derive the maximum benefit. Whilst much is known about 3PL from an international perspective, knowledge from a South African perspective is limited which raised the question, “what effect does outsourcing the logistics function have on South African manufacturing companies?”

The objective of this study was to identify the factors that organisations considered important in the decision to outsource. Further, benefits and limitations of outsourcing were identified. As 3PL is a strategic decision, senior managers were considered as a source of data. Due to their time constraints, it was felt that participating in a survey may prove fruitless. Therefore, a qualitative study was conducted.

The objectives were achieved by conducting face-to-face interviews with senior managers of 15 companies across various industries in South Africa who had outsourced their logistics functions to 3PL service providers. The challenges and experiences collected from these interviews are presented in this study.

The main conclusion drawn from this study is that the participants are in a better position than before they had outsourced logistics. Some companies achieved financial benefits, while some realised benefits such as increased efficiencies and economies of scale, and some realised a combination of both. The data analysis confirmed that while there are many benefits that accrue to companies who outsource, there are also numerous challenges and major risk factors that have to be overcome. Several recommendations have been made for companies contemplating outsourcing the logistics function.

Table of Contents

Description	Page
Declaration	i
Acknowledgements	ii
Abstract	iii
Table of Contents	iv
List of Figures	viii
List of Tables	ix
List of Acronyms and Abbreviations	x
CHAPTER ONE OVERVIEW OF THE STUDY	1
1.1. INTRODUCTION	1
1.2. MOTIVATION FOR THE STUDY	2
1.3. PROBLEM STATEMENT	2
1.4. AIMS AND OBJECTIVES	3
1.5. POPULATION AND SAMPLE	3
1.6. METHODOLOGY	4
1.7. DATA COLLECTION METHODS AND TREATMENT OF DATA	4
1.8. LIMITATIONS OF THE STUDY	5
1.9. OUTLINE OF THE STUDY	5
1.10. SUMMARY	6
CHAPTER TWO AN OVERVIEW OF LOGISTICS OUTSOURCING	7
2.1. INTRODUCTION	7
2.2. DEFINITION OF TERMS	7
2.3. KEY DRIVERS TO OUTSOURCE	12
2.4. THE DIFFICULTIES AND RISKS SUSTAINED IN OUTSOURCING	15
2.5. DEVELOPING A STRATEGY FOR OUTSOURCING	18
2.6. KEY SUCCESS FACTORS	21

2.7.	STEPS TO BE CONSIDERED IN THE OUTSOURCING PROCESS	23
2.8.	THE IDENTIFICATION AND SELECTION OF A PROVIDER	26
2.9.	MEASUREMENT AND FOLLOW-UP OF THE DECISION TO OUTSOURCE	26
2.10.	CONCLUSION	27
CHAPTER THREE RESEARCH METHODOLOGY		28
3.1.	INTRODUCTION	28
3.2.	AIM	28
3.3.	OBJECTIVES	28
3.4.	SAMPLING	29
3.5.	THE RESEARCH POPULATION AND SAMPLE	30
3.6.	RESEARCH METHODS	31
3.7.	ADVANTAGES AND DISADVANTAGE OF QUALITATIVE AND QUANTITATIVE RESEARCH	33
3.7.1.	Qualitative research	33
3.7.2.	Quantitative research	33
3.8.	DATA COLLECTION APPROACH	34
3.9.	INTERVIEWS	34
3.10.	INTERVIEW DESIGN AND PREPARATION	35
3.11.	RELIABILITY AND VALIDITY OF THE INTERVIEWS	36
3.12.	ETHICAL CONSIDERATIONS	36
3.13.	INTERVIEW LIMITATIONS	37
3.14.	ANALYSIS OF DATA	38
3.15.	SUMMARY	39
CHAPTER FOUR PRESENTATION OF RESULTS		40
4.1.	INTRODUCTION	40
4.2.	DESCRIPTION OF RESPONDENTS	40
4.3.	INTERVIEW SCHEDULE AND INTERVIEW	42
4.4.	DATA ANALYSIS	42
4.4.1.	Objective one: identify the key drivers for outsourcing the logistics function	42
4.4.1.1.	Human resource and industrial relations factors	43
4.4.1.2.	Efficiency related factors	44

4.4.1.3. Cost related factors	45
4.4.1.4. Other factors	46
4.4.1.5. Alternatives considered during the outsourcing process	47
4.4.1.6. Discussion of objective one	48
4.4.2. Objective two: identify the financial value created by outsourcing the logistics function	49
4.4.2.1. How did outsourcing the logistics function impact revenue?	50
4.4.2.2. How did outsourcing logistics impact fixed costs and variable costs?	51
4.4.2.3. How did outsourcing logistics impact profitability?	52
4.4.2.4. Discussion of objective two	52
4.4.3. Objective three: identify organisational process efficiencies from outsourcing the logistics function	53
4.4.3.1. Production efficiencies	54
4.4.3.2. Cost efficiencies	54
4.4.3.3. Delivery efficiencies	55
4.4.3.4. Technological efficiencies	55
4.4.3.5. HR efficiencies	56
4.4.3.6. Customer efficiencies	56
4.4.3.7. Other efficiencies	57
4.4.3.8. Changes required by the organisation to implement outsourcing	58
4.4.3.9. Discussion of objective three	58
4.4.4. Objective four: identify areas of concern resulting from outsourcing the logistics function	58
4.4.4.1. What were some of the most important expectations not met?	59
4.4.4.2. The effect of outsourcing logistics on business risk	61
4.4.4.3. The concerns regarding the current logistics outsourcing relationship	62
4.4.4.4. Discussion of objective four	62
4.4.5. Objective 5 - To establish what factors companies considering outsourcing should consider in their planning	62
4.4.5.1. Strategic considerations	63

4.4.5.2. Operational considerations	64
4.4.5.3. Financial considerations	65
4.4.5.4. Customer considerations	66
4.4.5.5. OSP selection considerations	66
4.4.5.6. Discussion of objective five	67
4.4.6. Summary	67
CHAPTER FIVE CONCLUSION AND RECOMMENDATIONS	68
5.1. INTRODUCTION	68
5.2. KEY FINDINGS	68
5.3. RECOMMENDATIONS BASED ON FINDINGS	69
5.3.1. Failure of owner driver programmes	69
5.3.2. Use of 4PL logistics service providers	69
5.3.3. Consideration of an exit strategy	70
5.3.4. Use of multiple service providers	70
5.4. LIMITATIONS OF THIS STUDY	70
5.5. RECOMMENDATIONS FOR FUTURE STUDIES	71
5.6. SUMMARY	71
REFERENCES	xi
APPENDIX 1 Introductory letter	xviii
APPENDIX 2 Consent letter	xix
APPENDIX 3 Interview Schedule	xx
APPENDIX 4 Ethical clearance	xxi

List of Figures

No.	Description	Page
2.1	Strategic sourcing options	18
2.2	The 18 Cs successful outsourcing model	22
3.1	Classic research process model	31
3.2	The four stages of analysis	38
4.1	Changes in revenue	50
4.2	Cost reduction	51
4.3	Efficiencies gained from outsourcing	54

List of Tables

No.	Description	Page
1.1	Companies and industry sector of participants	4
1.2	Presentation of research process	6
2.1	Reasons for global outsourcing as perceived by survey respondents	12
2.2	The main stages in the outsourcing process	25
3.1	Characteristics of quantitative and qualitative research	32
4.1	Sample demographics	41
4.2	Human resource and industrial relations factors	44
4.3	Efficiency related factors	45
4.4	Capital and cost related factors	46
4.5	Other factors	47
4.6	Operational concerns with outsourcing	60
4.7	Operational concerns	61
4.8	Strategic considerations	63
4.9	Operational considerations	65

List of Acronyms and Abbreviations

3PL	third-party logistics
4PL	fourth-party logistics
AIMS	Alliance International Moving and Shipping
BEE	Black Equity Empowerment
BPO	business process outsourcing
CAPEX	capital expenditure
CRM	customer relation management
CSCMP	Council of Supply Chain Management Professionals
EBITDA	earnings before interest, taxation, depreciation and amortisation
FedEx	Federal Express Corporation
HIV/Aids	Human immunodeficiency virus infection / Acquired immunodeficiency syndrome
HR	human resources
IR	industrial relations
JIT	just-in-time principles
KPI	key performance indicators
LRA	Labour Relations Act
NEHAWU	National Education Health and Allied Workers Union
OPS	outsourced service provider
OSPs	outsourced service providers
PPE	personal protection equipment
R&D	research and development
SAPA	South African Press Association
SLAs	service level agreements
UKZN	University of KwaZulu-Natal
UTi	Union-Transport Worldwide Incorporated

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1. INTRODUCTION

The contemporary business environment is constantly changing due to factors such as globalisation, technological innovation, shorter product life cycles and changing customer preferences. As a result of these changes, business processes need to become more specialised, and many value added activities are placed outside the traditional boundaries of an organisation. These developments now require organisations to partner with other entities to be successful. This changing business environment has also influenced the areas of supply chain as organisations seek to find solutions to these changes.

According to Handley and Benton (2009, p.344), there is hardly a more salient question being asked by business leaders than “which aspects of our value chain should we perform internally and which aspects should we source externally.” Lafontaine and Slade (2007) have addressed this question as the classic make-or-buy decision or a decision to the extent of vertical integration. When an organisation is considering outsourcing, it is in effect re-evaluating a prior decision to “make”. By outsourcing, an organisation will redefine its existing boundaries.

In order for outsourcing to be successful, it is vital that an organisation understands the benefits and shortcomings of outsourcing logistics. Therefore the topic chosen for this study aimed to identify the effects of outsourcing, identify the key drivers for outsourcing, and what factors companies should consider before outsourcing logistics.

The aim of this chapter is to provide an overview of the study and provide a motivation for this study. This chapter provides a summary outline of the population and sample size, the research methodology chosen, the data collection methods used and any limitations of this study.

1.2. MOTIVATION FOR THE STUDY

There is a lack of information into the reasons and effects of companies who outsource the logistics function, especially from a South African perspective. A better knowledge and understanding of these factors will allow organisations to focus on factors that have a significant impact on their success and ensure that the maximum benefits are achieved from outsourcing.

Outsourcing is a management tool and if used effectively by an organisation, can lower costs, increase customer service, and consequently increase profitability. This research report first introduces the outsourcing types, functions and then explores the relationship between outsourcing and organisational effectiveness. The conclusion demonstrates future issues and the importance of global outsourcing.

This research will benefit both companies that have already outsourced the logistics function as well as companies that are considering outsourcing logistics. This research report also describes in detail experiences of other companies that have already outsourced logistics, allowing others to capitalise on their past experiences. Further, this research discusses steps that should be considered at each phase of the outsourcing process, and focuses on the “processes” involved in outsourcing.

1.3. PROBLEM STATEMENT

The literature review has revealed that logistics outsourcing has far-reaching consequences, and hence should be carefully considered to avoid difficulties such as loss of control, employee insecurity and supplier dependence. The decision to outsource is complex and often involves the use of conflicting criteria. The recent trend toward the outsourcing of logistics has given importance to the concept of 3PL. A good logistics service will prove to be a source of competitive advantage and prove to be a key in delivering effective customer service.

It is evident from the literature review that a gap exists with regards to 3PL implementation and its success in South African companies. This raises the question, “Are South African

companies satisfied with their outsourced logistics service?” In order to answer this question, an empirical study was conducted which will be described in the next chapter.

1.4. AIMS AND OBJECTIVES

The aim of this study was to establish “what effect outsourcing the logistics function has on South African manufacturing companies.”

The objectives of this study were to:

1. Identify the key drivers for outsourcing the logistics function.
2. Identify the financial value created by outsourcing the logistics function.
3. Identify organisational process efficiencies gained from outsourcing the logistics function.
4. Identify areas of concern resulting from outsourcing the logistics function.
5. Establish what factors companies should consider when planning outsourcing.

In general, this research explored outsourcing logistics and its impact on organisational effectiveness. Based on different perspectives, this research report shows that outsourcing has strongly influenced an organisation’s effectiveness and efficiency. Moreover, this research shows that companies that outsource logistics will reach their goals which will satisfy shareholder requirements as well as build competitive advantage. This research has also identified any shortcoming of outsourcing and what factors should be considered when outsourcing.

1.5. POPULATION AND SAMPLE

For this study, the research was specific to companies who previously had their logistics functions in-house, but have subsequently outsourced their logistics function to a third party service provider. A purposive sample of 15 manufacturers was chosen.

The sampling method used for this study was judgement sampling since it was the only viable method for obtaining the type of information that is required from very specific people, since they alone possess the facts and are able to provide the information sought (Sekaran & Bougie, 2011). The researcher selected samples for the population ensuring that as many industries and activities were present in the sample. The criteria included

industry, product, location, and the scope of outsourced activities. The participants for this study are presented in Table 1.1.

Table 1.1: Companies and industry sector of participants

Company	Industry sector
Godrej Consumer Products	Chemical
Distillers	Food and Beverage
NPC Cimpor	Building and Construction
Hosaf	Chemical
Geochem	Chemical
UPM Raflatac	Paper
GUD Filters	Automotive
Pepcor Distribution	Clothing and Textiles
Willard Batteries	Automotive
Bridgestone Tyres	Automotive
Impact	Paper
Tongaat Hullett	Food and Beverages
Feltex Automotive	Automotive
Woolworths Distribution	Food and Beverages
Defy Appliances	Electronics

1.6. METHODOLOGY

According to Quinlan (2011), data collection methods are a major part of the research project. There are different approaches to collect data, which encompass both theory and method. The aim of this study was to understand the effects that outsourcing has had on an organisation not by measuring quantitative effects, but focusing on the qualitative aspects. A qualitative study was conducted by method of face-to-face interviews with senior managers of organisations. The reason for choosing interviews was that the participants were able to provide data that was rich in nature which was based on their personal experiences with outsourcing.

1.7. DATA COLLECTION METHODS AND TREATMENT OF DATA

An interview schedule was used (Appendix 3) which was loosely structured and allowed the researcher to control and shape the information as it was gathered. The interviews were conducted in a flexible manner which allowed the participants to open up and express their

thoughts and ideas. This allowed responses to be probed which produced rich and complex data.

The data collected was analysed, from which themes and categories were identified, which were then used to structure the presentation of the results. The themes are presented in sections and the categories presented as sub sections.

Further evidence to support the findings is provided by using direct quotations from respondents, while key quotations were selected to illustrate the meaning of the data and demonstrate reliability and validity of the data analysis. Further, quotes were selected to illustrate strength of opinions, similarities and differences between respondents and a breadth of ideas. Where appropriate, some qualitative data has been dealt with in a quantitative way by using tables and figures.

1.8. LIMITATIONS OF THE STUDY

Being a qualitative study, the results of the research are usually not generalisable (White, 2002). However, the purpose of this research was not to obtain generalisable information, but rather to obtain expert opinions from those actively involved in logistics, which could be reproduced to ensure the reliability of the data. These limitations are discussed further in Chapter 5 of this study.

1.9. OUTLINE OF THE STUDY

The research process was conducted in a systematic and structured manner. The study is documented and presented in five chapters as illustrated in Table 1.2.

Table 1.2: Presentation of research process

Chapter	Content
Chapter 1	This chapter has provided an overview to the research study, stated the aims and objectives of the study, described the population and motivation for the sampling method used. The data collection method used has been justified and any limitations for this study have been explained.
Chapter 2	Chapter 2 presents a literature review which introduces the concept of outsourcing. This chapter further introduces definitions of terms used in outsourcing, and reviews key drivers to outsourcing. Strategies to outsourcing are then discussed together with key success factors, as well as any expected difficulties and risks associated with outsourcing.
Chapter 3	This chapter firstly provides an overview of research methodology and design. Further, this chapter describes how the research was conducted, and what philosophical assumptions underpin the data collection methods.
Chapter 4	This chapter first presents a description of the respondents and method used to analyse the data. The results of analyses and findings to emerge from the study, together with a discussion, are then presented.
Chapter 5	Chapter 5 is the concluding chapter of this study and contains a summary of the study and the findings, what conclusions can be drawn from the findings and recommendations for further studies.

1.10. SUMMARY

The business environment is consistently evolving which has an impact on an organisation's profitability and efficiency. Companies need to explore alternative strategies to ensure that they are able to maintain competitive advantage. Outsourcing of the logistics function can be a successful strategy for an organisation if executed correctly. This chapter has explained the motivation for this study. The objectives were listed and limitations introduced to provide a clear understanding of the study. To understand the effects of outsourcing logistics, a literature review and qualitative research are presented in the following chapters. Chapter Two provides a literature review which forms the theoretical basis for this study.

CHAPTER TWO

AN OVERVIEW OF LOGISTICS OUTSOURCING

2.1. INTRODUCTION

Manufacturing companies are finding themselves competing in an increasingly difficult environment and have been forced to find innovative methods to increase competitive advantage and improve profitability. Customers pressurise companies to enhance their customer service, while shareholders demand an increase in market share and returns. Further, companies are forced to seek improvement in response to the effects of globalisation and changes in technology, as well as to maintain stability in a climate of economic volatility and uncertainty (Langley, Albright, Fletcher & Wereldsma, 2012).

Outsourcing is receiving increased attention worldwide as a manner in which organisations can lower costs and improve the service provided to customers, and consequently can increase their competitive advantage and profitability (De Villiers, Nieman & Niemann, 2011). More and more managers are therefore faced with the question “which part of our activities should we perform internally, and which should we source externally?” The magnitude of outsourcing logistics is put into perspective by data from Armstrong and Associates (2011). Their estimates indicate that global revenues from outsourcing logistics amounted to US \$541.6 billion for the year 2010, which is 6% higher than 2009.

The objective of this literature review is to clarify the motives for outsourcing logistics by analysing the trends, and the perceived advantages and drawbacks of contract logistics from the perspective of manufacturers.

2.2. DEFINITION OF TERMS

Research into the definition of the concept of a supply chain reveals that it is broad and comprehensive, and it can be argued that the terms supply chain, demand chain, value networks and value chains, for instance, can be used as synonyms. However, supply chain management appears to be the more widespread and commonly used term. It can be argued that supply chain management is not a new concept, but represents a function that started

in the 1960s with the development of the concept of physical distribution. The focus of physical distribution was to arrive at the best or lowest cost system (Coyle, Langly, Gibson, Novack & Bardi, 2009).

Further, Gattorna (2010) defined a supply chain as “a combination of processes, functions, activities, relationships and pathways along which products, services, information and financial transactions move in and between organisations, in both directions”. Hugo, Badenhorst-Weiss and Van Biljon (2004) defined the supply chain as “a network of organisations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer”.

According to De Villiers *et al.* (2011), supply chain activities that are usually outsourced include physical warehousing, materials management, inbound and outbound transportation, inventory management, fleet management, order fulfilment, supply and demand planning and network design.

Outsourcing as defined by McIvor (2005) involves the sourcing of goods and services, previously produced internally within an organisation, from external suppliers. The term outsourcing is wide-ranging and can cover many areas including the outsourcing of products as well as services. The variety of outsourcing known as Business Process Outsourcing (BPO) can be defined as the delegation of one or more processes to an external provider, who in turn administers and manages these functions based upon defined and measurable performance metrics (Patel & Aran, 2005). When these processes are executed in a different country, this is known as offshore outsourcing or offshoring.

In general, functions that are outsourced are divided into horizontal services and vertical services. These relationships can range from arm’s length transactions to the complete integration of two or more organisations (Vries & Vaart, 2004).

- Horizontal services are common to most industries and include a wide range of services such as human resources (HR), finance, accounting, and customer relation management (CRM). Outsourcing is common in these areas, as they are typically

back-office processes and do not offer a competitive advantage to the organisation (De Villiers *et al.*, 2011). Horizontal collaboration is also characterised by corporation between (potential) competitors and parties at the same level in the market (Vries & Vaart, 2004).

- Vertically focused services are services that are specific to an industry, and are often outsourced by industries that dominate the market. Examples of such industries include financial services, insurance and airlines. Vries and Vaart (2004) defined vertical service as collaboration between parties that succeed each other in a particular generation process and each having different activities.

Van Laarhoven, Berglund and Peters (2000) defined the outsourcing of the logistics function as functions that are carried out by a logistics service provider on behalf of a client and consist of at least management, execution of transportation and warehousing. In addition, other functions included are inventory management, information services and sometimes supply chain management.

Other authors, such as Lynch (2000), Burns, Warren and Cook (2001), Ravi (2001), Chow and Gritta (2002), and Langly, Allen and Tyndall (2002) have defined logistics outsourcing as the process where a company contracts a third party, who has the necessary experience, to perform reoccurring logistics functions, which could have been provided internally. This is typically a long-term, mutually beneficial and dependent relationship.

The Council of Supply Chain Management Professionals (CSCMP, 2012, p.212) has defined logistics as “The process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods including services, and related information from the point of origin to the point of consumption for the purposes of customer requirements”. Logistics is concerned with the movement of goods, and in many cases is responsible for the movement of incoming goods, as well as the distribution of goods to the next member of the supply chain, and frequently to the customer themselves (Burt, Petcavage & Pinkerton, 2010). In most cases, logistics professionals design and manage a firm’s distribution system, which consists of warehouses, distribution points and freight carriers.

Third-party logistics (3PL) are supplied by outsourced service providers (OSPs), which can be defined as organisations that provide multiple logistics services that were previously provided in-house for use by customers (Gattorna, 2010). These services are usually integrated or bundled together by the provider. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding (Langly *et al.*, 2009).

According to Bhatnager, Soohal and Millen (1999), 3PL logistics companies are order winners that provide companies with a differentiated service through investment in dedicated assets, technologies and processes. These resources are subsequently leveraged to reduce capital, investment inventory and supply chain costs. Expected benefits that accrue to the company are improved customer service, implementation of best practices and provision of labour and operational flexibility (Hugo *et al.*, 2004). Although 3PL service providers promote themselves as being able to offer a broad range of services, it is useful to categorise them in one of several ways. These are discussed briefly.

- Transportation – examples of OSPs are DHL, FedEx, Supply Chain Services and, locally, Grindrod Logistics Services. These companies utilise transportation-based assets and in all instances provide a comprehensive set of logistics offerings.
- Warehouse/Distribution-based – examples of these OSPs are UTi Integrated Logistics and Brand Warehousing locally. In the experience of these organisations the transition to facility-based operations is less complex than transportation services.
- Forwarders – examples in this category include Kuehne and Nagel and locally based Khapele Freight. These firms do not own any assets but are highly capable of putting together a package of services to meet customers' needs.
- Financial administration – examples of these organisations include AIMS Logistics and General Electric Information Services. These firms provide services such as payment facilitation and auditing, cost accounting and management tools for managing inventory.
- Information-based – examples of these organisations are Transplace and Nistevo. These organisations enable a web-based platform that brings together shippers and

carriers worldwide to collaborate in their logistics planning and execution in the most efficient and effective manner.

According to Armstrong and Associates (2011), there is a trend for the number of firms that offer 3PL services to increase year on year. Some of the firms are small, niche players while others are large. As per Patel and Aran (2005), 3PL logistics is driven more by strategic consideration than costs, in response to the need for the provision of integrated offerings of full services.

Every so often, 3PL logistics gets so complicated that another company is used to manage it. In 1996, Accenture (previously known as Anderson Consulting) invented and trademarked the Fourth-Party Logistics concept, which is known simply as 4PL[®]. Due to the advancement of technology and e-capabilities, 4PL[®] is a new type of specialist organisation that manages 3PL on a company's behalf. Fourth Party Logistics manages all aspects of the company's supply chain and acts as a single interface between the company and multiple logistics service providers (Gattorna, 2010). Early adopters of the 4PL[®] model include Transnet, Barloworld and BMW.

Gattorna (2010) defined 4PL[®] as “a supply chain integrator that assembles and manages the resources and capabilities of its own organisation with those of complementary service providers to deliver a comprehensive supply chain solution”. According to Gattorna (2010), the 4PL[®] model was designed to overcome the inadequacies of the 3PL model. This would ensure that in a strategic context there would be a single point of contact for all supply chain requirements, which would be designed to reduce demands on senior management. In a financial context, continuous improvements and on-going renegotiations of Service Level Agreements (SLAs) would form a central part of 4PL[®] (Gattorna, 2010). Finally, in an operational context this would mean that an entirely new entity could be established which could hire carefully selected staff and management. This would reduce possible union and internal cultural resistance to outsourcing (Gattorna, 2010).

Independent research conducted by Vogel (2001) reveals that the earnings before interest, taxation, depreciation and amortisation (EBITDA) of companies that used genuine 4PL[®] were greater by a factor of three to five times that of companies that used the conventional 3PL models.

2.3. KEY DRIVERS TO OUTSOURCE

Outsourcing is driven by a number of factors such as cost, the need to focus on core activities, and the desire for improved service levels and increased innovation (Elmuti, 2003). Lynch (2000, p.85), in referring to the reasons for outsourcing, stated “While it has been suggested that costs should not be the primary consideration in selecting a logistics service provider, no one will argue that it is not an important factor in most decisions”. While costs may play a vital role in the decision to outsource, they should always be analysed objectively and together with other factors in the process. Research conducted by Elmuti and Kathawala (2000) is reflected in Table 2.1. The research was conducted with 2 000 organisations throughout the United States, Middle East and Europe. These results are able to quantify some of the main objectives in outsourcing, and are discussed in detail together with other literature.

Table 2.1: Reasons for global outsourcing as perceived by survey respondents

Rank	Factor	n = 544
1	Cost reduction	156
2	Quality improvement	152
3	Increase exposure to worldwide technology	150
4	Delivery and reliability improvements	148
5	Use resources not available internally	136
6	Gain access to materials only available abroad	122
7	Establish presence in a foreign market	104
8	Maintain sufficient flexibility to respond to market conditions	92
9	Reduce amount of specialised skill needed	76
10	Make capital funds available for other profitable operations	64
11	Combat competition to domestic supply	60

Source: Elmuti and Kathawala, 2000.

Cost savings are often the most obvious and easiest to demonstrate. The cost savings result from the OSP (outsourced service provider) is able to provide a lower cost for the provision of a service than that previously achieved in-house. The OSP is able to achieve a lower cost due to factors such as specialisation, economies of scale and improved efficiencies, among others. To see a comparative cost picture clearly the evaluation of the costs must be carefully performed, taking into account the effects of time and capacity utilisation of the assets of the organisation (Burt *et al.*, 2010).

Cost savings are achieved when an organisation is able to reduce internal costs through outsourcing. The resources that were previously allocated to the outsourced activity are re-deployed to core activities which can be used to generate income. Outsourcing therefore allows an organisation to reduce its working capital by reducing its investment in warehouse facilities, materials handling equipment and transportation equipment (Kathawala, Zang & Shao, 2005).

Outsourcing's impact on quality is unclear, and opinions on this topic are largely subjective. Usually, the quality of service achieved prior to outsourcing is unknown, and it is therefore difficult to make comparisons afterwards. However, managers and customers do become sensitive to performance issues when an external contractor is engaged. Patel and Aran (2005) stated that most OSPs, like Six Sigma, try to meet quality standards, which results in a dramatic improvement in quality. As the errors are reduced, so too does the cost of running the process, to the benefit of both the organisation and the OSP.

The globalisation of businesses has been viewed by Trunick (1989), Foster and Muller (1990), Sheffi (1990), Bryne (1993) and Razzaque and Sheng (1998) as the most prominent reason for outsourcing. The sourcing of products globally has led to more complicated supply chain routes and consequently requires the expertise of 3PL vendors.

In response to the need for improved efficiencies, many companies have switched to production using just-in-time principles (JIT). This has turned out to be another major factor in the decision to outsource logistics. Moving to JIT means that inventory and logistics control has become critical in manufacturing and logistics functions (Razzaque & Sheng, 1998).

Improved efficiencies may also be achieved within the activity being outsourced. This is due to the organisation's interaction with best-in-class suppliers. Organisations have the ability to take advantage of the supplier's intellectual capacity and innovation. Moreover, the increased exposure to competition or even the threat of competition which arises out of outsourcing can encourage improved efficiencies (Elmuti & Kathawala, 2000) .

According to Trunick (1989), other drivers of outsourcing are the availability of new technology and the versatility of 3PL. Companies are able to utilise technology developed by 3PL which would normally be too expensive to develop in-house. Further, 3PL has the ability to make changes to the distribution system to keep abreast of changes in technology and the market.

Outsourcing allows an organisation to be fully flexible. A flexible organisation has the ability to provide maximum responsiveness on a selective basis for short periods of time (Gattorna, 2010). If it has a flexible supply chain an organisation has the ability to adapt to market or environmental changes. The organisation becomes leaner and meaner, and the OSP has the task of adapting to the changes imposed on or required by the organisation. In essence, the organisation has the ability to dictate the changes required by the OSP in order to maximise the advantage accruing from its capabilities.

Another reason for companies to outsource logistics, according to Burt *et al.* (2010), is that 3PL service providers are able to offer a company a total landed freight cost versus a single freight rate that a company would usually obtain. A single freight rate allows a company to cost their product much more easily since only the one number is quoted.

Further benefit to using 3PL service providers is that they are able to provide companies trade-off analysis and commodity rate investigations. 3PL companies also have the resources and ability to undertake stock counts and audit functions, handle intermodal needs, provide tenders and to track shipments on behalf of the customer.

In South Africa, many companies have chosen to outsource logistics by implementing an owner driver programme. The benefits of this outsourcing programme allow a company to promote preferential procurement as required by the Black Equity Empowerment (BEE)

codes of good practice (Black Economic Empowerment Commission, 2006). Further, the Employment Equity Act, No. 55 of 1998 was passed to eradicate the legacy of apartheid at workplaces. While the act created equity in employment, it also created an opportunity for the development of small and medium-sized enterprises (Black Economic Empowerment Commission, 2006). Usually, larger organisations outsource basic services to smaller organisations, thus encouraging the development of these enterprises (Jeffery, 2011).

Another benefit of outsourcing is that it gives organisations access to a larger pool of qualified personnel and talent. A shortage of qualified personnel in an industry can result in companies paying a premium to retain their services, since the costs of recruiting and retraining are high if the employee leaves (Patel & Aran, 2005). By outsourcing, a company will have access to the resources required but at a lower cost. However, there are many difficulties and risks that are associated with outsourcing, as discussed next.

2.4. THE DIFFICULTIES AND RISKS SUSTAINED IN OUTSOURCING

The main disadvantage cited by many authors, such as Razzaque and Sheng (1998), Cheong (2003), Jones and George (2009) and De Villiers *et al.* (2011) is the loss of control. This is to be expected, as all projects that involve collaboration will result in some loss of control. The ability to manage this situation will depend on the amount of detail in the information received by the company from the supplier. A loss of control could lead to a decrease in quality. An increase in delays can be caused by many factors that are outside the control of the outsourcing company. Examples include port/customs delays, labour disputes, weather, and political unrest (O’Keeffe & Vanlandingham, 2006).

Outsourcing can create employee insecurity as well as pose legal complications (Ahearn, 2012). In South Africa, outsourcing may invoke the application of section 197 of the Labour Relations Act (LRA). Once it has been established that outsourced activities have been transferred as a going concern, employees will enjoy the protection of section 197 of the LRA. This means that employment will automatically transfer to the contractor by means of outsourcing. This is as per the judgement delivered in the constitutional court in the matter of NEHAWU versus the University of Cape Town (2003) ILJ 95 (CC).

Companies that outsource logistics become completely dependent on that supplier if the contract extends over a long period of time (Razzaque & Sheng, 1998). By entrusting an entire process to an OSP, an organisation will increase its risk of over-dependency. Moreover, companies may eventually lose the knowledge and skill that they once possessed internally prior to outsourcing.

Sometimes the goals of the parties may differ due to the partnership being formed from different perspectives. Further, the management styles of the companies may also be different, which can cause a loss of focus. As per Burt *et al.* (2010), the OSP may lose touch with the firm's business plan and strategy or the OSP may have a conflict of interest if it performs similar activities for other clients and may use resources from one organisation to support another. These issues ultimately affect the timely and successful performance of the outsourced activity.

According to Hoecht and Trott (2006), relying on an OSP to provide innovation may prove to be risky. Factors that contribute to this are the loss of key areas of expertise to the outsourcing organisation. Further, OSPs do not have the desired leading-edge expertise, or it is spread over a number of clients. This reduces the quality of the service provided from the "best in the world" to the ordinary standard of the industry.

A leakage of information will be problematic to any organisation (Ghelfi, 2004). In order for companies to collaborate with research and produce successful development outcomes, organisations need to share knowledge and commercially sensitive information (McIvor, 2005). Organisations will be concerned, however, that this information should not find its way into the hands of their competitors. Hoecht and Trott (2006) suggested that organisations enter into shorter term projects and have detailed legal contracts. However, it is almost impossible to define every possible outcome in a legal contract. Another possibility suggested by Ghelfi (2004) is that companies should additionally rely on mechanisms of social control, such as trust and reputation, which could reduce the risk of loss of confidentiality.

Activities in the supply chain are often triggered by the flow of information, such as the inventory status, demand, order fulfilment and delivery. Inaccuracy and a lack of

information in the value chain can affect decision making (Ou & Musa, 2011). The flow of information between organisations and OSPs is the bonding agent between the organisation and the OSP (Ou & Musa, 2011). Problems with the flow of information will increase the risk of opportunism by competitors, a loss of control, and disagreements (O’Keeffe & Vanlandingham, 2006).

Capability loss represents the extent to which the organisation loses its ability to perform the activity that it was outsourcing (Handley, 2011). In some cases firms eliminate entire departments as well as human and physical assets when an activity is outsourced, since they believe that these resources do not represent their new core activities (Razzaque & Sheng, 1998). Most often, such organisations do not take time to assess the strategic importance of these decisions and run the risk of losing critical resources that should have been retained (Razzaque & Sheng, 1998). Research by Handley (2011) also reveals that the deeper the capability loss by the outsourcing organisation, the more challenging it appears to be for the organisation to build a committed and cooperative relationship with the new OSP.

There is, however, little information available on the actual realisation of benefits achieved through outsourcing in general, although the literature has revealed that there are numerous claims to benefits having been derived from outsourcing. A gap in the literature has been identified, as detailed analyses of the outcomes and potential shortcomings of outsourcing are difficult to find. Further, none of the literature surveyed for this review makes any mention of reverse logistics. Reverse logistics includes the return of unsold goods, product returns and waste management. More research is required to bridge the gap between outsourcing logistics and reverse logistics.

Another gap noted is a lack of research on the alternatives available to companies should outsourcing fail. Does the company just insource again, or does it hire the services of 4PL to rectify the situation? Outsourcing has the capability to add value to organisations and should create a positive relationship between customers and service providers. The relationship must be long-term for both parties to achieve maximum benefit.

Double outsourcing is the practice of subcontracting an outsourced contract and is a common practice in the logistics industry (Burt *et al.*, 2010). While the OSP may have the necessary skills and equipment to execute the function, the subcontractor may not possess the same requirements which ultimately lead to lesser levels of service received by the end user (Cheong, 2003). Burt *et al.* (2010) suggested that should subcontracting be the norm in an industry, the client should be involved during the subcontracting selection process.

2.5. DEVELOPING A STRATEGY FOR OUTSOURCING

A company's outsourcing strategy should be aligned with its business strategy to achieve competitive advantage and the company should conduct a thorough evaluation of its current and potential capabilities. Analysing the relative importance of the organisation's dimensions of activity and organisational capability in the context of outsourcing will lead to the development of a number of strategic options, as suggested by McIvor (2005) as illustrated in Figure 2.1.



Figure 2.1: Strategic sourcing options

Source: McIvor, 2005.

- **Quadrant 1**

In this quadrant there are external sources that are far more capable than internal sources for the performance of a critical activity. The organisation needs to answer key questions such as: How significant is the disparity between internal performance and OSP? How much investment is required to equal and surpass the capability of OSP? Are there any internal or external restraints on using an OSP? Will customers recognise the difference in the end product if an OSP is used?

By answering the above questions, an organisation will be able to select the better of the two options associated with this quadrant, namely invest to perform internally and or strategically outsource.

The “invest to perform internally” option is most appropriate when an organisation is in a strong position to bridge the disparity in performance compared with that of the OSP. This choice becomes more favourable if there is considerable risk in using an external supplier for such a critical activity. Moreover, restraints such as threat of industrial action because of outsourcing force the organisation to invest to improve.

The organisation chooses the “strategically outsource” option if it has decided it is not possible to bridge the gap in disparity in performance compared with that of the OSP. An organisation finds that it does not possess the necessary skills and resources to meet the standards required. Further, it feels that the advantage of the OSP is too difficult to replicate. Another potential option is to acquire a company that possesses superior capability to perform the activity. However, acquisition is costly and available to larger organisations only.

- **Quadrant 2**

In this quadrant the organisation is more competent in a critical activity than any potential OSP. The organisation needs to answer key questions similar to those asked in quadrant 1, and additionally: Should the organisation build upon its superior capability in the activity? Does the organisation possess the necessary resources to

provide the service on an on-going basis? What are the behavioural influences on maintaining the activity internally?

In this situation there are two possible options available, namely perform internally and develop, or strategically outsource. As in quadrant 1, it is important to consider the significance and type of disparity in the performance of the activity. Some examples are that the organisation possesses an advantage due to the economies of scale developed over a period of time. Organisations in this position should keep the activity internal, in the event that the supply market is not able to meet the performance levels required.

In an ideal situation, an organisation would like to have superior performance in many of its critical activities. However, due to limited resources this may not be possible. In some situations competitive advantage will be achieved only by outsourcing the assembly or integration of a critical activity. As per McIvor (2005), “competitive advantage can be achieved in the activity of specifying and integrating external services and other purchases, rather than assembly and production in the goods themselves”. An example is Volkswagen in Brazil, who instead of just buying parts from manufacturers have asked them to fit their products directly on the vehicles on the assembly line.

- **Quadrant 3**

In this quadrant there are many external suppliers that are more than capable of providing the activity, which is not critical to business success. This quadrant can include many simple activities required by the organisation. Although an organisation may historically have been able to handle the activities internally, having too many activities to perform internally may not give them the level of attention required to achieve superior performance. An organisation should ask the following key questions: Are there sufficient OSPs in the market to provide adequate competition? Do external suppliers have patents that give them a competitive advantage? Are there any internal or external restraints on using an OSP? Will customers recognise the difference in an end product if an OSP is used? In this quadrant, the most important factors are the ability of the market to supply the

services required, and any limitations that may prevent an organisation from outsourcing.

- **Quadrant 4**

In this quadrant the organisation is more competent than a potential OSP and the activity is not critical to business success. The following key questions should be asked: Is there any potential to leverage capabilities from external suppliers? Are there any internal or external restraints on using an OSP? Will customers recognise the difference in an end product if an OSP is used?

As mentioned, a company's outsourcing strategy should be aligned with its business strategy to achieve competitive advantage and the company should conduct a thorough evaluation of its current and potential capabilities (McIvor, 2005). While the organisation may be competent to perform the activity better than external providers, the activity may not be central to competitive advantage. Thus, an organisation should consider outsourcing the activity so that it can focus on activities critical to building a competitive advantage. Should the organisation choose to outsource, it should assist the OSP to develop a strategy to achieve the service levels achieved by the organisation. Outsourcing may have a considerable impact on a company's competitiveness over time and in order to be successful, the entire process should be managed carefully. If executed properly, outsourcing can be a source of competitive advantage resulting in a leaner, flatter organisational structure (Pearce & Robinson, 2003).

2.6. KEY SUCCESS FACTORS

As outsourcing has evolved in a more strategic manner, collaboration, co-development and cooperation are required (Ishizaka & Blakiston, 2012). This has resulted in the development of the need for a closer and longer relationship between an organisation and its OSPs to achieve the organisation's goals and develop a competitive advantage. When outsourcing is performed well, an organisation will achieve benefits that it would not have been able to achieve if the activity were to be performed internally (Ishizaka & Blakiston, 2012). However, there are no guarantees that the benefits will be achieved and there are risks involved when an activity is outsourced.

A logical process should be followed to increase the chance of success of the outsourcing strategy. De Villiers *et al.* (2011) suggested a project management approach to the outsourcing process, which must involve logistics, marketing, finance, human resources, manufacturing and information technology. It is essential that all disciplines are able to input into the outsourcing strategy, so that the entire organisation understands the reasons and the benefits of the strategy.

A study conducted by Ishizaka and Blakiston (2012) identified 18 factors which can contribute to ensuring a successful long-term outsourcing arrangement. These factors can be grouped into three classes, namely those related to the client, those related to the service provider, and those related to the interaction of both. The authors used these to create a model of successful long-term outsourcing, as illustrated in Figure 2.2.

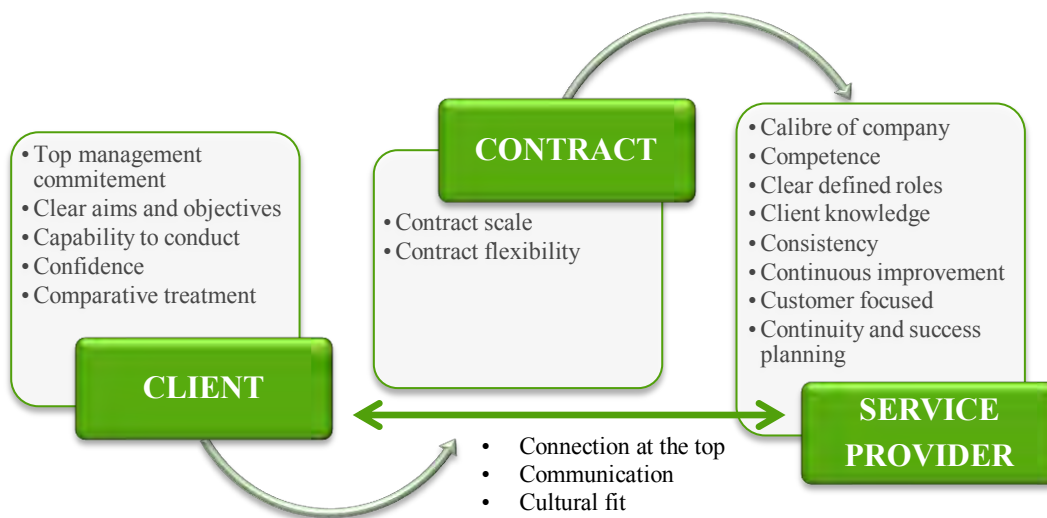


Figure 2.2: The 18 Cs successful outsourcing model

Source: Ishizaka and Blakiston, 2012.

Top management from the client set the overall tone and philosophy of the company, and their commitment is the most important factor in outsourcing (Ishizaka & Blakiston, 2012). Having clear aims and objectives allows the client to select a suitable service provider which will result in a clear and flexible contract leading to a long term relationship. The service should consistently be client focused and continuously improve his service.

Further, the service provider should always demonstrate competence and knowledge of the client in order to keep the confidence of the customer (Ishizaka & Blakiston, 2012).

An atmosphere of trust and commitment should be created to promote performance. This can be achieved by entering onto a long-term contract. The 18C model developed by Ishizaka and Blakiston (2012) has substantial managerial implications. The implementation of the model would be time-consuming and costly, but, the benefits would ensure that the outsourcing strategy is successful.

According to Kathawala, Zhang and Shao (2005), the inherent conflict between the agendas of the client and the OSP makes it imperative that there is consideration within the relationship for long-term 'win-win' scenarios. Kathawala *et al.* (2005) further stated that there are two basic options available. The first is that the client buys or takes equity in the outsourcing organisation, which ensures that both parties in the outsource relationship have a shared agenda, but this may not be feasible for small or medium sized organisations. The second, but more difficult option may be to structure a contract that includes penalties such as delayed payments or levies which will force the OSP to produce the expected service and savings desired (Kathawala *et al.*, 2005).

2.7. STEPS TO BE CONSIDERED IN THE OUTSOURCING PROCESS

The steps listed by De Villiers *et al.* (2011) are analysing the cost and performance, negotiating the terms of the contract, exploring the strategic implications, checking the references of the potential OSP, managing the new relationships, developing an SLA, visiting the sites of the potential OSPs, developing an exit provision, developing resolution guidelines, compiling the request for proposals and transitioning the resources. By diligently following the above steps, companies can improve their chances of a successful strategy.

According to O'Keeffe and Vanlandingham (2006), project management is vital in any types of outsourcing. The authors' further state that the scope, objectives, performance, risk, quality, costs and benefits involved should be defined professionally which will limit the exposure to frustrating and expensive debates. In addition, the selection of an OSP,

planning the work and the on-going monitoring of the activity are equally critical to the success of outsourcing.

Choi (2008) identified the tasks, key issues, time frame and deliverables associated with each stage which is presented in Table 2.2.

Stage one requires that the organisation examines the scope of the service to ensure that the outsourced service will deliver the benefits required. The review should examine estimates of the costs, identify benefits and risks of the options identified, and recommendation of the best option that the organisation should pursue. If the outcome is to proceed with outsourcing, the next step is to develop an appropriate outsourcing model. Once the model is developed, it should be followed by determining commercial decisions such as the contract size, duration, terms and conditions, pricing and performance incentives. The conclusion of stage one will result in an approved outsourcing plan.

Stage two involves the tendering and selection of a suitable service provider which should be guided by precepts such as fairness, merit and thoroughness. A detailed service acquisition plan should be developed on how the organisation will select a service provider. Tender documents should be put together to form the tender invitation. Tenders should then be evaluated on both a technical aspect and a financial aspect. Once all the areas of the evaluations have been taken into account, the preferred service provider should be identified. A due diligence should be conducted on the preferred service provider to check the reliability of the service providers statements to meet the terms of the contract. The final stage in stage two is to negotiate and finalise the contract.

Stage three is contract management which ensures that both contracting parties meet their obligations to ensure delivery of the objectives required from the contract. A transition plan should be established to cover areas such as timetables, responsibilities and deadlines. To ensure that the outsourcing arrangement does provide value for money, the organisation needs to monitor the benefits and check them against the projected benefits. All parties should strive to achieve and maintain a partnering relationship to achieve common goals. Finally, organisations should always explore ways to improve the delivery of the outsourced service by conducting regular reviews.

Table 2.2: The main stages in the outsourcing process

STAGE 1	STAGE 2	STAGE 3
Review required services	Tendering and selection	Contract management
Tasks	Tasks	Tasks
<ul style="list-style-type: none"> • Review the business need • Review the service delivery arrangements • Set transition and implementation requirements 	<ul style="list-style-type: none"> • Prepare detailed service acquisition plan • Create tender documents • Establish the evaluation process • Approach tender board • Manage the tender process • Evaluate tender responses • Conduct due diligence checks • Negotiate the contract • Obtain clearance to finalise the contract 	<ul style="list-style-type: none"> • Implement the transition plan • Manage the relationship • Monitor service delivery • Monitor benefits achieved • Administer the contract • Seek continuous improvement
Key issues	Key issues	Key issues
<ul style="list-style-type: none"> • Do the required services align with the department's business objectives? • Have the previous outsourcing objectives, if applicable, been achieved? • What are the project objectives? • Does outsourcing offer the best option to provide the service? • Are there any obstacles to overcome? • What level of service is required? • Are innovation and improvement encouraged? • What is the most appropriate outsourcing model? 	<ul style="list-style-type: none"> • What is the most appropriate tendering strategy? • Do the tender documents provide all necessary information? • What evaluation method will be used? • Is the tendering process ethical and defensible? • Which services provider is best? • Will the recommended service provider satisfy requirements? • Have transition and implementation requirements been met? • Does the negotiated contract satisfy service requirements and provide sufficient risk mitigation? 	<ul style="list-style-type: none"> • Are transition plans realistic and practical? • Are staffing and asset management issues resolved? • How will the relationship be managed? • Are there systems to monitor performance? • How will performance issues be handled? • Are services being delivered according to contract? • Are anticipated benefits achieved?
Indicative timeframe	Indicative timeframe	Indicative timeframe
<ul style="list-style-type: none"> • 4-8 weeks 	<ul style="list-style-type: none"> • 10-30 weeks 	<ul style="list-style-type: none"> • 4-12 weeks for transition planning
Deliverable	Deliverable	Outcome
<ul style="list-style-type: none"> • Approved outsourcing plan 	<ul style="list-style-type: none"> • Signed contract 	<ul style="list-style-type: none"> • Service delivered and performance monitored

Source: Choi, 2003.

2.8. THE IDENTIFICATION AND SELECTION OF A PROVIDER

According to Kathawala *et al.* (2005), there are two types of providers of outsourced services. The first type is a strategic partner, who will participate in the business as if it was its own business, be active in strategic planning meetings and share in the strategic decisions. The second type is a supplier that will deliver the requested service and at least meet with the minimum specifications and make use of an operational, tactical, or transactional approach, pay close attention to activity performance and prefer to use a pricing model (Kathawala *et al.*, 2005).

Many criteria are used to select OPS partners. According to ITtoolbox Outsourcing Survey conducted in 2004 (www.ittoolbox.com), pricing (57%), and technology skills (53%) were ranked as primary factors for selecting a service provider. Other criteria for selection included prior experience with the vendor (35%), business function speciality (34%), flexibility (27%) business ethics and culture (26%), client testimonials (23%) and financials status (22%).

Companies should take a strategic approach to the outsourcing decision-making and implementation. A study conducted by Kujawa (2003) on the criteria used by South African companies when selecting logistics service providers ranked dependability/reliability, price and convenience/availability as the top selection criteria. The same study ranked organisational involvement as the least important criterion. Once a firm has made the strategic decision to outsource its logistics function, the next step is the selection of a service provider. The selection criteria used in selecting a supplier should consist of strategic, tactical and operational requirements critical to the company. McIvor (2005) maintained that a great deal of preparation must be done by the parent company before entering into an outsourcing agreement.

2.9. MEASUREMENT AND FOLLOW-UP OF THE DECISION TO OUTSOURCE

Once a company has selected and implemented an outsourcing strategy, it is important that it should measure the actual results of the outsourcing against the targets. Companies can manage this process successfully with the use of SLAs (Patel & Aran, 2005). While a

normal procurement contract will cover business terms and commercial items, an SLA will cover areas such as performance, quality, personnel and measurement plans. Once deviations have been noted, corrective action should be initiated to steer the operation back on track. Key performance indicators (KPI) such as a Balanced Scorecard can be implemented (Elmuti, 2003).

According to Kathawala *et al.* (2005), companies should establish mechanisms for on-going performance monitoring and problem solving which will build effective relationships. The authors further stated that performance monitoring allows for the OSP to work out with others on how to improve efficiency since problems exist amongst people, technology and processes. Kathawala *et al.* (2005) also stated that the outsourcers can also solve problems by third party intervention or termination.

2.10. CONCLUSION

This literature review has revealed that logistics outsourcing has far-reaching consequences, and hence should be carefully considered to avoid difficulties such as loss of control, employee insecurity and supplier dependence. The decision to outsource is complex and often involves the use of conflicting criteria. The recent trend toward the outsourcing of logistics has given importance to the concept of 3PL. A good logistics service will prove to be a source of competitive advantage and prove to be a key in delivering effective customer service.

It is evident from the literature review that a gap exists with regards to 3PL implementation and its success in South African companies. This raises the question, “Are South African companies satisfied with their outsourced logistics service?” In order to answer this question, an empirical study was conducted which will be described in the next chapter.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

According to Sekaran and Bougie (2011, p.3), business research is an “organised, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem, with the purpose of finding answers or solutions to it”. Business research therefore provides managers with the necessary information to make informed decisions and solve problems. White (2002) similarly states that business and management professional practice is often changed and improved as a consequence of research.

This chapter focuses on the approaches the researcher used to investigate the subject, list the objectives of the study and describe the research methodology employed. Further, this chapter describes the differences between qualitative and quantitative research methods and the reasons for the research methods employed.

3.2. AIM

Outsourcing is receiving increased attention worldwide as a manner in which organisations can lower costs and improve the service level provided to customers. This can consequently increase their competitive advantage and profitability. The aim of this study was to clarify the motives for outsourcing logistics by analysing the trends, perceived advantages and drawbacks of contract logistics from the perspective of manufacturers.

3.3. OBJECTIVES

The objectives of this study were to identify:

1. The key drivers for outsourcing the logistics function.
2. The financial value created by outsourcing the logistics function.
3. The organisational process efficiencies gained from outsourcing the logistics function.
4. The areas of concern resulting from outsourcing the logistics function.

5. The factors companies should consider when planning outsourcing.

3.4. SAMPLING

As per Cooper and Emory (1995), the process of selecting portions from a total population for the purpose of forming conclusions about the entire population is referred to as sampling. Sampling can be divided into two basic methods, namely random (probability) sampling and non-random (non-probability) sampling. In probability sampling, the elements in the population have some known non-zero chance of being selected as a participant. Further, probability sampling works with very accurate and an up-to-date sampling frame and is the preferred method to carry out any form of statistical analysis (White, 2002).

However, in qualitative studies, there are situations where it is almost impossible to determine accurately the sampling frame and a detailed statistical analysis is not required because of the nature of the study (White, 2002). Some qualitative research requires a sample with a definite purpose which exhibits characteristics that need to be explored (White, 2002). There are three main types of non-probability sampling design which are further discussed in detail.

- **Cluster sampling**

Within a population, natural subgroups often exist which are called clusters. Groups that have heterogeneous members are first identified and then some chosen at random. All the members in each of the randomly chosen groups are then studied. The main advantage of this method is that no accurate sample frame is required and the costs of data collection are low. However, it is the least reliable and least efficient among all probability sampling methods since the subsets of clusters can be more homogeneous than heterogeneous which can result in bias (Sekaran & Bougie, 2011).

- **Convenience sampling**

As the name suggests, convenience sampling refers to the collection of information from members of the population who are conveniently available to provide it. This type of study is most often used in the exploratory phase of a research study and is

probably the best method to gain information that is quick and efficient (Vanderstoep & Johnston, 2009).

- **Purposive sampling**

This type of sampling is confined to specific types of people who are able to provide the data, since they are the only ones who possess the information. Purposive sampling consists of two types of sample designs discussed further in detail.

- **Judgement sampling**

Judgement sampling involves the choice of subjects who are in the best position to provide the information required. These subjects are reasonably expected to have expert knowledge, by virtue of having gone through the experiences and process themselves. They will be able to provide good data or information to the researcher (Sekaran & Bougie, 2011). Where there is a need to focus on one particular issue, this type of sampling is termed as extreme sampling (White, 2002).

- **Quota sampling**

Quota sampling ensures that certain groups are adequately represented in the study through the assignment of a predetermined number or quota. It is useful when minority participation is required, but is not easily generalisable. It is easy to arrange and there is no need for a sample frame (White, 2002).

3.5. THE RESEARCH POPULATION AND SAMPLE

For this study, the research was specific to companies who previously had their logistics functions in-house, but have now outsourced their logistics function to a third party service provider. To select a sample, web sites of national logistics services providers were viewed and their key customers were noted. A list was compiled of these key customers and a purposive sample of 15 manufacturers was chosen. The sample method used for this study was judgement sampling, since it was the only viable method for obtaining the type of information that is required from very specific people, since they alone possess the facts and are able to give the information sought (Sekaran & Bougie, 2011). The researcher selected samples for the population ensuring that as many industries and activities were

present in the sample. The criteria included industry, product, location, and the scope of outsourced activities.

3.6. RESEARCH METHODS

The classic research model involves starting out with theory, generating hypotheses, testing the hypotheses, and interpreting the results. As Figure 3.1 illustrates, the research process is cyclical and not linear. The results of one study feed back into the system and inform future research (Vanderstoep & Johnston, 2009).

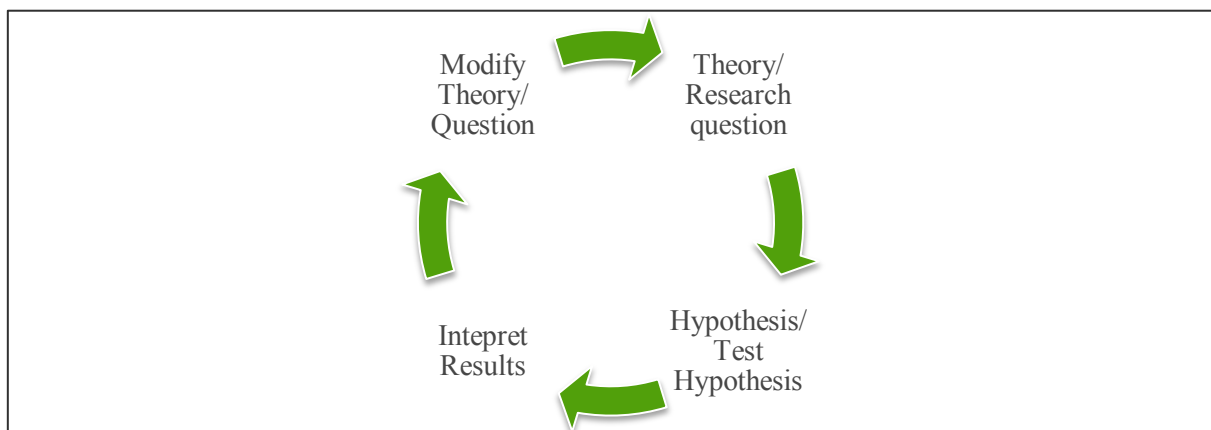


Figure 3.1: Classic research process model

Source: Vanderstoep and Johnston, 2009.

There are different approaches to research which encompass both theory and method as stated earlier. Most research is best understood as either being qualitative or quantitative in nature. The selection of which approach is chosen should be based on the problem of interest, the resources available, the type of information needed, the audience of the research, the skills and training of the researcher and the availability of resources (time, money and human). Although some research may incorporate both qualitative and quantitative methodologies, there are significant differences in the assumptions made, the data collection methods and the type of analysis used (Creswell, 1994), as specified in Table 3.1.

Table 3.1: Characteristics of quantitative and qualitative research

Quantitative research	Qualitative research
Objective	Subjective
Questions such as how many	Research questions such as what and why
“Hard” science	“Soft” science
Tests theory	Develops theory
Subjects	Participants
Facts are value-free and unbiased	Facts are value-laden and biased
Measurable	Interpretive
Context free	Context dependant
Focus is concise and narrow	Focus is complex and broad
Reasoning is logistic and deductive	Reasoning is dialectic and inductive
Mechanistic: parts equal the whole	Organismic: whole is greater than the parts
Established relationships, causation	Describes meaning, discovery
Uses instruments	Uses communications and observations
Report is statistical analysis. Basic element of analysis is numbers.	Report is rich narrative, individual; interpretation. Analysis is words and ideas.
Strives for generalisation leading to prediction, explanation and understanding.	Strives for uniqueness. Patterns and theories developed for understanding.
Highly controlled setting – outcome based	Flexible approach – process based
Sample size: n	Sample size unimportant – seeks an “informal rich” sample
Reduction, control, precision	Discovery, description, understanding, shared interpretation

Source: Adapted from Anderson, 2006.

Another distinction often made by professional researchers is between basic research and applied research. Basic research, such as a laboratory experiment, is an investigation that adds to the body of knowledge in a particular area of study, but may not have obvious and immediate applications in real-world settings (Vanderstoep & Johnston, 2009). Applied research does have obvious and immediate applications (Vanderstoep & Johnston, 2009). Further, applied research often takes place in real life settings such as schools, hospitals and businesses. Survey research is a type of applied research, and usually has immediate application regarding the topic being addressed in the survey (Vanderstoep & Johnston, 2009).

3.7. ADVANTAGES AND DISADVANTAGE OF QUALITATIVE AND QUANTITATIVE RESEARCH

Qualitative and quantitative research both have advantages and disadvantages and which type is selected will depend on the researcher's aim and the area of focus. According to Anderson (2006), it is important to remember that both designs are not polar opposites. Both methods can be used together in a mixed method study and this is known as triangulation. The key advantages and disadvantages of qualitative and quantitative research are described below.

3.7.1. Qualitative research

- **Advantages**

This type of research is useful in the early stages of study, when the researcher is not sure of what to focus on (Jones, 2012). Since it has no strict design, it gives the researcher the freedom to let the study unfold naturally. This method also creates an atmosphere of openness and allows respondents to expand and explain their responses without being prejudged (Jones, 2012). Another advantage is that the researcher gains rich and comprehensive data (Jones, 2012).

- **Disadvantages**

Since the researcher is heavily involved in the process, the researcher can't make a subjective view of both the study and the participants (Jones, 2012). The researcher can interpret the data according to their view, which could be biased and skew the results (Jones, 2012). Another disadvantage is that this method is time consuming and can last for months or even years (Jones, 2012).

3.7.2. Quantitative research

- **Advantages**

The researcher is more objective about the findings of the study. Further, quantitative research can be used to test hypotheses in experiments because of its ability to measure data using statistics (Jones, 2012) .

- **Disadvantages**

The main disadvantage is that the context of the study or experiment is ignored (Jones, 2012). Another disadvantage is that a large sample of the population must be studied. The larger the sample, the more accurate the results will be (Jones, 2012).

3.8. DATA COLLECTION APPROACH

Problems that use the appropriate tools of research greatly enhance the value of the research (Sekaran & Bougie, 2011). There are several data collection methods for both qualitative and quantitative research, each with its own advantages and disadvantages. “Interviewing, administering questionnaires, and observing people and phenomena are the three main data collection methods in survey research” (Sekaran & Bougie, 2010, p.185). Due to the nature of this study, a qualitative approach to data collection was employed. Large numbers of uninformed employees could never provide the detailed information that one specialist employee could.

The tool used to conduct the research was an interview. According to Keller (2012), the best way to survey people, is by means of a personal interview. A personal interview involves the interviewer soliciting information from the respondent. This method has the advantage of having a higher expected response rate compared to other data collection methods. Further, there are probably fewer incorrect results as the interviewer can correct any misunderstandings when asked to. The interviewer also has the opportunity to probe the answer of the respondent if more clarity is required. Another factor is that open-ended questions are more tolerated through interviews since respondents can easily express their long answers (White, 2002).

3.9. INTERVIEWS

There are three main types of interviews, namely informal, structured and guided interviews. An informal interview allows the researcher to go with the flow, and create impromptu questions as the interview progresses. A structured interview follows a set of prescribed questions and is written with probes and follow-up questions. A guided interview is a combination of an informal and structured interview (Vanderstoep & Johnston, 2009).

To collect data for this study, the instrument used was a personal, structured, face to face interview. Given the limited experience of the interviewer, this type of research relies less on the skills of the interviewer and provides more data collection control. In addition, a structured interview is more time efficient than an informal interview, since the respondents are kept on track by the prepared questions (Vanderstoep & Johnston, 2009).

Another advantage of interviews is that they allow the interviewer to adapt questions and clarify doubts by being able to repeat or rephrase the question. One disadvantage is the cost associated with travel if the study covers a large geographical area (Sekaran & Bougie, 2011).

3.10. INTERVIEW DESIGN AND PREPARATION

A set of prescribed questions was designed using the funnelling technique (Appendix 3). Key open-ended questions were asked at the beginning to get a broad impression about the status of outsourcing at the company. From this key question, more detailed questions were asked as the interview progressed. All questions were designed to ensure the responses were as unbiased as possible.

Once the sample had been selected, background research was done on the organisation in order for the researcher to become familiar with the company's operations. This was done to save time at the interview and to become familiar with the company. The prescribed questions were sent to the participants at least one week in advance. This was done to allow the participants to become familiar with the questions being asked and gather any information and thoughts that were needed.

This allowed the participants to prepare if required, and also an opportunity to understand what was expected of them. Further, it gave the participants an opportunity to withdraw from the study if they were not comfortable answering the questions.

A pilot of this study was completed. This was to ensure the questions were clear and helped remove any ambiguity present. Three pilot interviews were conducted to time the length of the interview. The interview was designed to last approximately 15 minutes. To be professional, all interviews were booked in participants' calendars using Microsoft

Outlook, and conducted at the participants' premises. This was to ensure that the interview was free from any distractions and interruptions. Further, it gave the interviewer an opportunity to observe the organisation first hand.

3.11. RELIABILITY AND VALIDITY OF THE INTERVIEWS

According to White (2002), two concepts to build into the design of research are reliability and validity. Sekaran and Bougie (2011) stated that reliability and validity have a slightly different meaning in qualitative research in comparison to quantitative research.

In quantitative research, reliability is about the consistency of the research. If another researcher used a similar research design, the results should be the same. However, this does not imply that the interpretation and conclusion should be the same, since the judgement of each researcher is not the same (White, 2002).

In qualitative research, validity is defined as the extent to which the instrument measures what it proposes to measure. According to Sekaran and Bougie (2011, p.295), "in quantitative research, validity refers to the extent to which the research results accurately represents the collected data (internal validity), and can be generalised or transferred to other contexts or settings (external validity)".

For this study, face validity was used. According to Quinlan (2011), face validity is detailed accounts of the experiences of people participating in the research. To further strengthen the validity of this study, respondents selected are considered as experts in their field. A detailed description is provided in the following chapter.

3.12. ETHICAL CONSIDERATIONS

According to Vanderstoep and Johnston (2009), research ethics deals with how to treat those that participate in studies, and how the data is handled after it has been collected. The general principles largely cut across disciplinary boundaries. Ethical clearance for this research was obtained from the University of KwaZulu Natal. In addition, further requirements listed below were met:

- Participants were given a covering letter detailing the aims and objective of the study (Annexure 1).
- Participants were made aware that their participation was voluntary, and that data collected would remain confidential.
- Participants accepted, signed and returned a letter of consent.
- Permission was obtained from the participant to use a voice recorder during the interview in order to save time.

3.13. INTERVIEW LIMITATIONS

The instrument chosen to collect data for this research was face to face interviews. This method allowed for probes and follow up questions to tailor interviews based on respondents' unique knowledge and experience. However, there are some limitations associated with interviews as per Vanderstoep and Johnston (2009) given below.

- The sample size using interviews is smaller compared to other techniques. This makes the research more difficult to generalise (Vanderstoep & Johnston, 2009).
- Biased data may be obtained if the respondents are interviewed when they are in a bad mood or extremely busy.
- Responses to questions concerning issues such as retrenchments, restructuring and conditions may introduce bias.
- A national study will require a vast number of resources to complete.
- A participant may want to please the interviewer and not tell the truth, which could introduce bias into the data.
- Labouring on or emphasising certain phrases by the interviewer will lead the respondent, and possibly introduce bias into the data (Vanderstoep & Johnston, 2009).

However, if the researcher became aware of items that could introduce bias into the research, changes were made to produce valid data. All of the above factors were considered to ensure that bias was not introduced into the study.

3.14. ANALYSIS OF DATA

Data obtained from a qualitative study is rarely in an immediately analysable form and must be prepared before any analysis can begin (Sapsford & Jupp, 2006). The data for this research was hand written notes together with electronically recorded interviews. Data preparation was therefore necessary. During the research, a vast amount of data was collected, and the first step in the analysis was data reduction. Data reduction refers to the process of selecting, coding and categorising the data. Each discrete idea or topic was assigned with different numbers and letters. A table was concurrently maintained with the meanings of each of the codes. Codes were then later grouped to form categories. The method used to generate codes and categories from the data was both inductive and deductive. Where no theory was previously available, codes and categories were developed inductively from the data. This theory is also known as grounded theory (Sekaran & Bougie, 2011).

Once data had been organised into categories and sub-categories, patterns and relationships began to emerge from the data. The process of data coding and categorising was modified many times over to ensure that the data was useful. The results are presented in Figure 3.2, using the four stages in the data analysis as per Quinlan (2011).

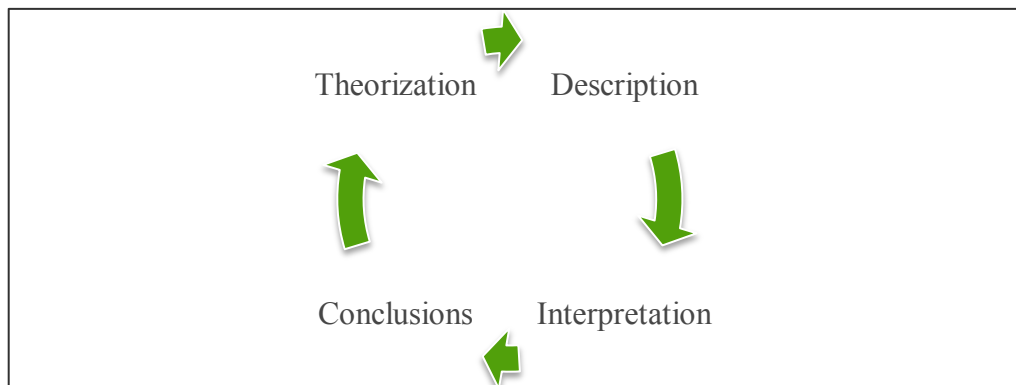


Figure 3.2: The four stages of analysis

Source: Quinlan, 2011.

In the first stage, the researcher provides a descriptive analysis of the data collected. In the second stage, the researcher states their own opinion on what they believe the data means. In the third stage, the researcher draws major and minor conclusions from the data. Finally,

in the theorisation stage, the researcher links the data collected to the literature review given in Chapter 2.

3.15. SUMMARY

This chapter described the research methodology that was used to conduct the study. The chapter described in detail, the aim and objectives of the study, the population and sample, and research methods. By following applicable research methodology, reliable and accurate data was collected from the participants of the research. This data was analysed to obtain meaningful information upon which recommendations would be made. The presentation and discussion of these results are contained in Chapter 4.

CHAPTER FOUR

PRESENTATION OF RESULTS

4.1. INTRODUCTION

This chapter presents a full account of the analysis of the data collected, and a complete presentation of the findings that emerged from the data analysis. The results are presented using the four stages in the data analysis model, namely description, interpretation, conclusion and theorisation.

4.2. DESCRIPTION OF RESPONDENTS

The purpose of this section is to support the quality and credibility of the sample used, given the small sample size. This is done by presenting the expertise and experience of participants interviewed, the industry represented and the outsourced activity. Background information is given regarding the experience of the respondents.

There is no set sample size for qualitative research, but generally involves 6-8 people due to the large amounts of data collected (Bineham, 2006). Data from more than 10 people is usually used to validate the findings identified from the initial 8-10 participants (Bineham, 2006). According to Marshall (1996), there is the misapprehension that “generalisability is the ultimate goal of all good research”. An appropriate sample size is one that adequately answers the research question which could be in single numbers. In practice, the number of subjects becomes obvious as no new categories, themes or explanations emerge, which is known as “data saturation”. For this study, 15 participants were interviewed, and data saturation was observed after seven interviews. The reason for such low saturation is due to judgemental sampling being used.

The roles of the participants from the sample were diverse and ranged from logistics directors, general managers, supply chain managers, warehouse and distribution managers works managers to financial managers. Furthermore, two of the participants were foreign nationals, having worked for the same company in other parts of the world. This introduced a factor of globalisation into the data collected. The participants represented a

wealth of experience when considering the number of personnel involved in the supply chain function. Table 4.1 shows that 80% of the managers interviewed for this study have more than three years of experience.

Table 4.1: Sample demographics

Respondents experience in Supply Chain	Number	Percentage
0 Years	3	20%
1-3 Years	4	27%
4-7 Years	5	33%
8 Years and more	3	20%
Total	15	100%

Industry sector	Number	Percentage
Clothing and Textiles	1	7%
Food and Beverage	3	20%
Building and Construction	1	7%
Automotive	4	27%
Paper	2	13%
Electronics	1	7%
Chemical	3	20%
Total	15	100%

Outsourced activity	Number	Percentage
Logistics only	10	67%
Logistics and Warehousing	4	27%
Other activities outsourced	1	7%
Total	15	100%

Table 4.1 also shows that companies in the study are representative of the automotive, building and construction, food and beverage, clothing and textile, chemical, electronics and paper industries. Further, three participant companies were part of a global organisation. Another dimension introduced by the sample is to whom the company outsourced its logistics function. Three of the participants in the survey outsourced their logistics function to owner drivers, who were previous employees of the company.

The remaining participants in the study outsourced their logistics to dedicated 3PL organisations. A further three of the participants who used dedicated 3PL organisations also used multiple organisations simultaneously. From the companies interviewed, two responded that when outsourcing was implemented it was not as successful as they had anticipated.

4.3. INTERVIEW SCHEDULE AND INTERVIEW

The interview schedule that was used (Appendix 3) was loosely structured and allowed the researcher to control and shape the information as it was gathered. The interviews were conducted in a flexible manner which allowed the participants to open up and express their thoughts and ideas. This allowed responses to be probed which produced rich and complex data. The responses received from the participants were both unique and individual, and represented their understanding, feelings, perspectives and beliefs.

4.4. DATA ANALYSIS

The data collected was analysed, from which themes and categories were identified, which was used to structure the presentation of the results. The themes are presented in sections and the categories presented as sub sections. Further evidence to support the findings is provided by using direct quotations from respondents, while key quotations were selected to illustrate the meaning of the data and demonstrate reliability and validity of the data analysis. Further, quotes were selected to illustrate strength of opinions, similarities and differences between respondents and breadth of ideas. Where appropriate, some qualitative data is dealt with in a quantitative way by using tables and figures.

4.4.1. Objective one: identify the key drivers for outsourcing the logistics function

The first objective of this study was to identify the key drivers for outsourcing the logistics function and the key question asked was: “What are some of the most important factors that were considered before making the decision to outsource?”

The data collected from the 15 companies ranged from five responses to 18 responses with an average of 12 responses. In general, some of the responses received were industry and

company specific, while other responses received were general in nature. The data was analysed and grouped into the following themes:

- Human resource and industrial relations (HR & IR) factors
- Efficiency factors
- Capital and cost factors
- Other factors.

To explore the first objective further, a secondary question was asked: “What alternatives were considered during the outsource process?” The data collected from this question is discussed immediately thereafter.

4.4.1.1. Human resource and industrial relations factors

During the interviews, it became evident that the most frequent driver for considering outsourcing of the logistics function was attributed to HR and IR factors. The most common thread present was the high staff turnover experienced in the logistics department. High staff turnover can result in additional recruitment costs, lost production costs, increased costs of training replacement employees, loss of know-how, customer goodwill and damage that may be done to morale and productivity. The respondents agreed that high labour turnover ultimately reduces efficiency and profitability. One of the reasons attributed to the high turnover was HIV/Aids, as is evident in Table 4.2.

Another thread that was discovered during the interviews was the amount of pressure that unions placed on organisations, as one participant responded, “...employee unions were one of the biggest issues for us”. Union activity and demands have to be dealt with by the company which can be time and resource intensive. Most often, companies are not in a good position to bargain, and union demands are given into. The respondents felt that transport companies were in a far better position to bargain with transport unions as these companies collectively negotiated with unions.

Table 4.2: Human resource and industrial relations factors

Question 1 - What are some of the most important factors considered before outsourcing?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total
Human Resource and Industrial Relations factors																
Reduce employee turnover	✓				✓		✓		✓	✓	✓			✓		7
Aggressive employee unions	✓					✓				✓		✓		✓	✓	6
Employees are management resource intensive	✓					✓	✓			✓	✓				✓	6
Lack of highly skilled and qualified employees	✓						✓	✓			✓			✓		5
HIV	✓	✓				✓				✓				✓		5
Multiskilling problem	✓					✓					✓				✓	4
Poor employee performance	✓										✓			✓	✓	4
Non performing employees in other departments transferred to logistics	✓													✓		2

Many respondents agreed that another HR factor considered in the outsourcing logistics decision was that employees in the supply chain departments needed to be consistently supervised. This is due to the low level of skill that is usually employed in this area of the business. This created a further problem in that employees were not able to multitask, which increased headcount. One participant reported, “Historically, employees who did not perform in other departments were transferred to logistics. Eventually, the logistics department had a culture of poor performing employees which became a nightmare to manage”.

Some respondents agreed that they simply did not have the skill within their organisation to cope with the demands of the supply chain function, and would rather have an expert to handle this discipline on their behalf. Furthermore, the expertise of the OSP was available at a fraction of the cost.

4.4.1.2. Efficiency related factors

From an efficiency perspective, almost all participants agreed that the most common reason for considering outsourcing was that they wanted to focus on their core business activity which was production, as is evident in Table 4.3. Most agreed that outsourcing was a discipline on its own and was best served by a specialist. Others agreed that they wanted to increase quality and delivery which was seen as an extension of the product. This could be achieved by increasing the reliability of deliveries which in turn would promote customer loyalty. Some respondents stated that their delivery network was limited by the

number of vehicles they owned. However, by outsourcing, deliveries were possible to new areas not possible in the past.

Table 4.3: Efficiency related factors

Question 1 - What are some of the most important factors considered before outsourcing?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total	
Efficiency factors																	
Core focus on business activities	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	13
Increase reliability of deliveries	✓			✓	✓		✓		✓	✓	✓	✓	✓			✓	10
Increase in delivery flexibility which would increase customer loyalty					✓		✓		✓	✓	✓		✓	✓	✓	✓	8
Increase in efficiency					✓		✓		✓	✓	✓	✓	✓			✓	8
Increase distribution network		✓	✓			✓				✓		✓		✓	✓	✓	7
Eliminate seasonality demands					✓	✓	✓		✓	✓		✓				✓	7
Rapid growth of business												✓		✓	✓	✓	3
Demands placed by supplier for specific slots and JIT production													✓				1

Some of the companies that participated in the research were highly impacted by business seasonality. During quieter periods, these companies had under-utilised staff and assets, but during the peaks they did not have the ability to handle the deliveries. Outsourcing therefore offered these companies a flexible solution that was tailored to the demand, which allowed them to be more efficient.

A comment made by one respondent was: “Our sales were growing strongly, and other functions in the organisation simply could not keep up”. In this case, the logistics function created a bottle neck for the organisation. Another factor unique to one respondent was that their customer had allocated specific slots for them to deliver, since that company operated on a JIT production process, which was not possible with the company’s current logistics infrastructure. Failure to make deliveries during the allocated slots meant severe penalties to the company supplying the product.

4.4.1.3. Cost related factors

As presented in Table 4.4, some respondents believed that reductions in both headcount as well as costs in the logistics function were possible through outsourcing. They agreed that this could be achieved by optimising the logistics function which was possible for example by using a proven routing and planning system. Some also indicated that costs could be

reduced by savings gained from recruitment costs, transfer of the personal protection equipment (PPE) costs to the OSP, reduction of idle assets during off-peak periods, insurance and maintenance costs as examples.

Table 4.4: Capital and cost related factors

Question 1 - What are some of the most important factors considered before outsourcing?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total
Capital and Cost factors																
Reduction of CAPEX required	✓		✓	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	11
Reduction in CAPEX available	✓	✓				✓		✓		✓		✓	✓	✓	✓	9
Optimisation of the logistics function									✓	✓	✓	✓			✓	5
Annual labour wage increases rate higher than inflation rate	✓					✓			✓					✓		4
Eliminate under-utilised and idle resources	✓		✓		✓		✓		✓						✓	6

According to some respondents, another factor was that annual labour increase demands consistently outstripped the rate of inflation in the past few years. Many companies were unable to absorb this differential in price any longer and had to pass them on to customers as a price increase.

Most companies indicated that the availability of capital expenditure (CAPEX) to spend on the supply chain function was becoming scarce. Companies preferred to spend the limited available CAPEX on other areas of the business such as research and development (R&D) and production. These companies felt that the benefits derived from these functions were far more beneficial to the organisation than investing in logistics equipment. This meant that companies were often left with an inefficient and ageing fleet of vehicles. This also hampered efforts to reduce their environmental footprint by using more fuel efficient vehicles.

4.4.1.4. Other factors

A few companies commented that outsourcing was one of the easiest functions to outsource. Some of the reasons given were the availability of OSP companies and that logistics was a low risk area. Some participants agreed that outsourcing was an easy way to increase their BEE score.

Table 4.5: Other factors

Question 1 - What are some of the most important factors considered before outsourcing?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total
Other factors																
Outsourcing a global/national company policy	✓	✓	✓			✓	✓	✓	✓	✓		✓		✓		10
Lack of logistics technology within organisation	✓	✓	✓	✓			✓				✓	✓	✓	✓		9
Logistics easiest function to outsource compared to other departments					✓		✓		✓				✓	✓		5
Change in efficiency versus change in cost									✓	✓	✓	✓				4
Outsourcing as a BEE initiative					✓	✓		✓					✓			4
Change in customer base							✓							✓		2
Logistics not a product sold by the company														✓		1

Some companies indicated that outsourcing of the logistics was a directive from their international parent company, or a national exercise in their organisation. This directive forced companies to participate in the drive to outsource. According to other respondents, a contributing factor to outsource was that their organisation did not possess the necessary management skills to meet demands of logistics. Participants also mentioned that it was too expensive to purchase, manage and customise transportation systems software for their organisations. OSPs generally made software readily available at a fraction of the cost, and took care of all maintenance issues for the company.

One company responded that their customer base had changed. “We no longer sold to wholesalers who then redistributed our product to retailers. We now sold directly to retailers and discovered that our logistics department was not able to cope. Outsourcing to a specialist that delivered to retailers was the only solution”. According to another participant, logistics was not a function that was sold by their company. They sold a product, and would arrange transport as needed by the customer. Hence, it did not make sense to have a logistics department within the company.

4.4.1.5. Alternatives considered during the outsourcing process

During the interview, the researcher probed whether there were any other alternatives considered by the company besides outsourcing to a specialist OSP. Most of the respondents indicated that during the outsource process, owner driver systems were not considered. One company indicated that it had been implemented but was withdrawn because it was not successful. Two companies considered and implemented an owner

driver programme which was running successfully. One company implemented an owner driver programme, but was experiencing difficulties and was considering withdrawing the programme if not successful in the near future. Finally, one company considered and implemented usage of the railway infrastructure as an alternative.

4.4.1.6. Discussion of objective one

The main theme that emerged from the data analysis is that one of the main contributing factors to outsourcing of the logistics function is HR and IR issues. This contradicts the findings of Elmuti and Kathawala (2000) who cited cost reduction as the most important factor that companies considered during the outsourcing decision. The main reason for the difference could be that the study was conducted in the United States, Europe and Middle East. South African trade unions are active in the fight for worker benefits. To minimise the risk to their business, companies have opted to outsource the logistics function (Razzaque & Sheng, 1998). Similarly IR issues, such as worker performance, skills and management of employees are reasons to outsource logistics. The reason for this not being a major factor in the literature review is because this is an issue that is specific to South Africa.

The second important factor for outsourcing was related to efficiencies. According to the literature review, improved efficiencies were one of the main reasons that companies outsourced. However, the literature review ranks cost and quality as far more important factors than production efficiencies. According to SAPA (2011) and Adcorp (2012), South Africa's labour productivity was at the lowest level in 46 years. Local companies have realised that in order to be globally competitive, production and labour efficiencies need to improve dramatically. Again, the reason for this not being a major factor in the literature review is because this is an issue that is specific to South Africa. According to Sharp (2011), labour productivity in South Africa is an issue due to two main labour laws. The first is protection for workers against performance related dismissals. The second law involves collective bargaining, which forces wages to rise for an entire sector, at an agreed rate, irrespective of labour productivity (Sharp, 2011).

The access and availability of capital for logistics activities was cited as a major factor in the outsourcing function by the respondents. Respondents also mentioned that cost was an

important factor in the outsourcing decision. Both of these findings are aligned to the finding in the literature review. Similarly, participants in the study agreed that costs could be reduced by outsourcing the logistics function, reducing the headcount, as well as passing some internal costs onto the OSP. This agrees with the findings in the literature review where the ITtoolbox survey of 2004 identified cost reduction as the most important factor in selecting an OSP.

There were many other factors that were mentioned by the respondents that agree with the findings in the literature review such as lack of logistics technology, difficulty in retaining supply chain employees and sharing the risk of outsourcing. The literature review did not rank the importance of the factors, since this varied from company to company. The reason for this could be due to temporal or cultural differences. An example of this could be JIT customers as a factor in the outsourcing decision. JIT may be prevalent in large global companies, and may not be as popular in most South African companies yet.

In the literature review, BEE was mentioned as an opportunity for companies to score points by outsourcing the logistics functions (Black Economic Empowerment Commission, 2006). However, it was observed in the data analysis that many of these companies chose to outsource to an established 3PL service provider rather than an “owner driver” programme. While this goes against the spirit of BEE, the circumstances regarding this decision should be considered in full.

4.4.2. Objective two: identify the financial value created by outsourcing the logistics function

The second objective of the study was to identify the financial value created by outsourcing logistics. The aim of the questions asked was not to quantify the changes to profits in monetary terms, but rather to explore the main drivers for the changes in profit. Three key questions were asked as per Annexure 3, namely:

- What impact has outsourcing the logistics function had on your revenue?
- How did outsourcing logistics impact fixed costs and variable costs?
- How did outsourcing logistics impact profitability?

4.4.2.1. How did outsourcing the logistics function impact revenue?

The data collected from question two was quantitative in nature. All respondents answered question two, with eight respondents indicating that there was an increase in their revenue. Six of the respondents indicated that there was no notable change in revenue after outsourcing.

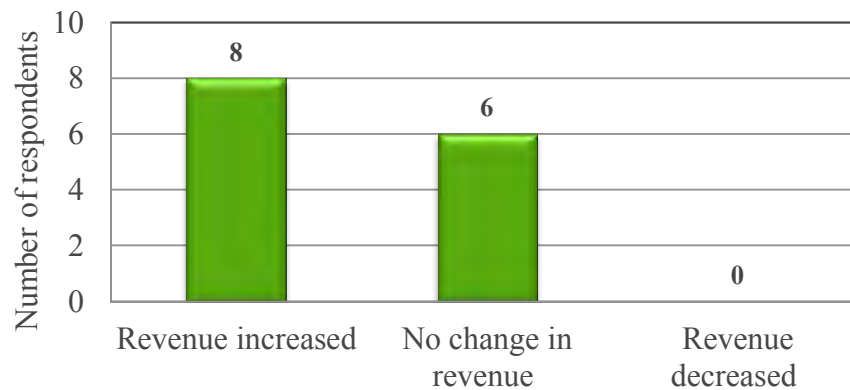


Figure 4.1: Changes in revenue

Of the respondents that reported an increase in revenue, the main reason given was an increase in their delivery network. Most of the respondents agreed that new markets had opened to them which were not previously available. As one of the respondents stated, “With outsourcing the logistics function, we were now able to sell and deliver to customers in new markets, which increased our revenue”. Some of the other reasons given for an increase in revenue were due to deliveries being more frequent and reliable, especially during peak periods. While some respondents reported no change in revenue, they pointed out that an increase in revenue was not one of the objectives of outsourcing. Their objectives were focused on areas such as increasing efficiency in the logistics function. None of the companies reported a permanent decrease in revenue. Some companies had experienced a decrease in revenue immediately after implementation of outsourcing, but this was a short-term effect.

4.4.2.2. *How did outsourcing logistics impact fixed costs and variable costs?*

As expected, almost all of the respondents indicated that they were able to convert fixed costs to variable costs. This was achieved by the company being able to dispose of assets such as vehicles and lifting equipment to either the selected OSP or to the trade. Companies that had lower fixed costs gave themselves flexibility to commit to investments in other areas of the business such as R&D. These same companies were also able to improve their balance sheet position by removing depreciable fixed assets and reducing liabilities for funding of assets.

Some respondents reported that besides being able to convert fixed costs to variable costs, they were also able to reduce fixed costs. Some of the common reasons cited for the reduction in costs, both fixed and variable, were due to the factors detailed in Figure 4.2.

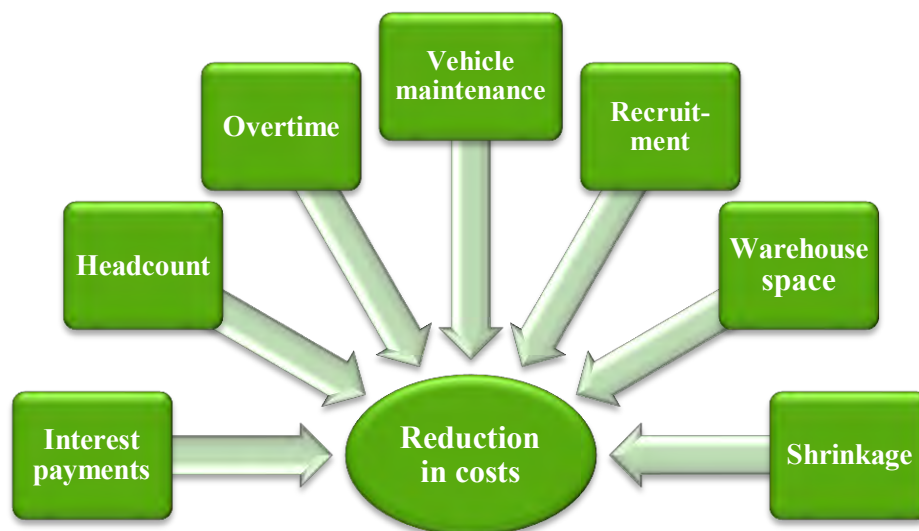


Figure 4.2: Cost reduction

A few respondents commented that they were able to align costs, both fixed and variable to the size and scale of business. As one respondent phrased it, “We did not have to purchase larger vehicles and wait for business to grow to fill them up. With outsourcing, we were supplied with the exact vehicles needed at the right cost”. This was confirmed by another respondent who commented, “We were able to reduce logistics costs by almost 25%. This

was achieved from savings such as reduction in employee training costs and improved performance levels by OSP employees”.

4.4.2.3. How did outsourcing logistics impact profitability?

According to most of the respondents, outsourcing had a positive effect on the profitability of their organisation. However, they commented that their success was not achieved instantaneously and that the benefits of outsourcing were only felt once the implementation had reached the maturity stage. A few of the respondents commented that profits had decreased after the implementation of outsourcing. However, these same companies also said that while profits may have decreased, the benefits were realised in other areas of the business. One respondent commented, “While our profits may have reduced slightly, we had happier customers since we were able to deliver more frequently. In the long term, we expect our profitability to be positive or at worst remain unchanged after implementing outsourcing”.

Some of the reasons given by the respondents for the increase in profits were due to better efficiencies and utilisation of assets, and that employees supplied by the OSP were multi-skilled. Other comments made were that growth had increased which in turn increased profitability. Many of the respondents agreed that savings from outsourcing were re-invested into other areas of the business. A few of the respondents commented that a positive change in income had been noted.

4.4.2.4. Discussion of objective two

The aim of the second objective was to assess the financial impact together with reasons for the change in profits. In the literature review, it was stated that a reduction in costs was one of the key drivers for outsourcing. According to Lynch (2000), costs should not be the primary factor for the outsourcing decision. None of the respondents mentioned that costs were the primary reason for outsourcing logistics which agrees with the findings of Lynch (2000).

In the literature review, Kathawala *et al.* (2005) as well as Burt *et al.* (2010) stated that an OSP was able to achieve a lower cost due to factors such as improved efficiencies,

economies of scale and specialisation. The results from the analysis of data have confirmed that most of the companies have been able to increase their profits by reducing both fixed and variable costs. Further, cost savings that were achieved by the OSP were passed onto the company.

Gattorna (2010) mentioned that savings derived from outsourcing were reinvested in other areas of the business. This allowed an organisation to be flexible and provide maximum responsiveness to changes in business needs. In this study, some of the respondents confirmed that savings were indeed reinvested into other areas of the business such as R&D which will assist in generating future income.

In the literature review, Kathawala *et al.* (2005) agreed that working capital was one of the paybacks that would be derived by the company. The results of this study are that most companies that participated in this study experienced a reduction of working capital which was achieved by reduced inventory levels. This had a positive effect on these organisations by reducing investment in warehouse facilities, materials handling and transportation equipment

4.4.3. Objective three: identify organisational process efficiencies from outsourcing the logistics function

The third objective of the study was to identify organisational process efficiencies from outsourcing the logistics function. The aim of the question was to discover what benefits outsourcing had brought to the company. Two key questions were asked as per the interview schedule:

- What process efficiencies were brought about by outsourcing?
- What changes were required by the organisation to implement outsourcing?

Figure 4.3 illustrates of some of the efficiencies that respondents cited as materialising within their organisation after the implementation of outsourcing the logistics function. To discuss these effects in more detail, they have been grouped into production efficiencies, cost efficiencies, delivery efficiencies, technological efficiencies, HR efficiencies,

customer efficiencies and other efficiencies. The order and size are not reflective of importance.

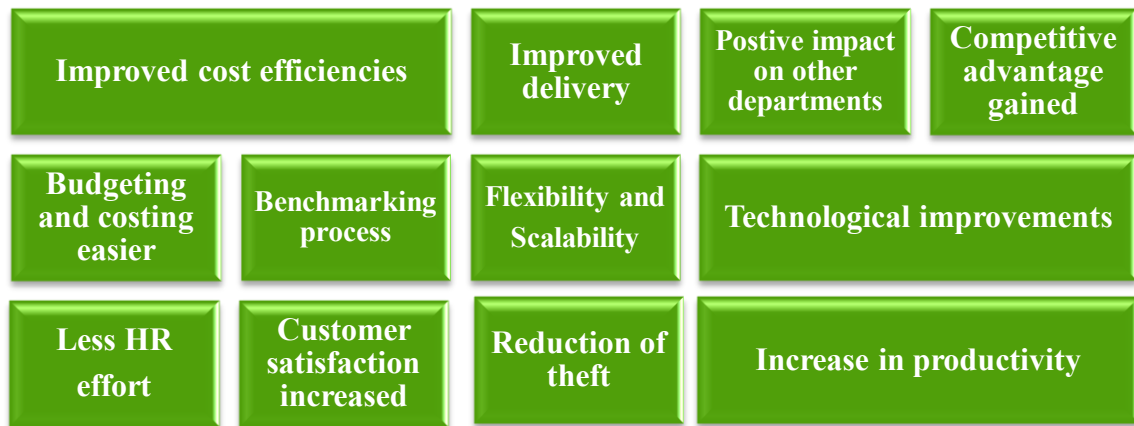


Figure 4.3: Efficiencies gained from outsourcing

To probe the objective further, secondary questions were asked such as, what was the effect on your administration function, how did outsourcing affect scalability and flexibility, how did outsourcing impact other departments within the organisation, and what impact did outsourcing have on the relationship with the company and the customer? Being an open-ended and exploratory question, a large number of responses were received. Some of the responses received were general in nature, while others were unique to some companies.

4.4.3.1. Production efficiencies

Almost all of the companies that participated agreed that they had achieved an increase in production efficiency. One of the main reasons was that these companies were now able to focus their efforts on their core activity which was production. Some agreed that logistics was often a bottleneck for their organisation.

4.4.3.2. Cost efficiencies

Most of the respondents commented that they had also achieved cost efficiencies. These cost benefits were realised by being able to pass most of logistics and allied costs to the

OSP. Further, the OSP was able to negotiate better rates with their suppliers since they were specialists. These cost benefits were directly passed onto the company.

A few respondents agreed that there was a reduction in hidden and unforeseen costs. This transparency brought cost stability to the company who in turn was able to budget and forecast more accurately. One respondent commented that their company was able to maintain customer pricelists better, since OSPs usually fixed some of their costs (except fuel) for a contractual period. Moreover, costs that were not adequately accounted for by the OSP became the costs for the OSP's account. Another improvement mentioned was the increase in the detail of costs analysed by the OSP. As one person phrased it, "Our OSP monitors everything from fuel efficiency, standing time, vehicle maintenance costs, insurance and overtime costs. By having this data we are able to set targets and parameters to monitor these costs".

4.4.3.3. Delivery efficiencies

More than half of the respondents commented that by using an OSP, there was an increase in delivery prediction. This meant for the company that delivery promises to the customer were increasingly met. Customers that used an owner programme reported an increase in the frequencies of deliveries. If a vehicle returned early from a completed delivery, they reloaded and did another delivery for the day. This type of service is critical to customers that hold low stock volumes and therefore depend on frequent deliveries. One company reported that their product needed delivery 365 days a year and this was problematic during the holidays. By outsourcing, this problem was completely eliminated. According to these respondents, this improved delivery service strengthened the relationship and trust between the customer and company.

4.4.3.4. Technological efficiencies

Half of the respondents mentioned that another benefit received from the OSP was the introduction of software programmes used to plan deliveries. This benefit was now available to the company at a fraction of the cost if the company purchased it on its own. Better planning and routing meant that delivery costs were reduced, which increased profitability.

Most companies agreed that they valued the expert knowledge that the OSP introduced to the organisation. By outsourcing, these companies now had access to a pool of qualified and experienced resources, at a fraction of the cost. One company mentioned that the OSP had made available a new type of transport container. According to the respondent, “The new container introduced by the OSP meant that the volume of goods transported increased, packing material was eliminated and there was a reduction in contamination of product”.

Another respondent commented that the OSP evaluated the engine capacity used by the company’s current delivery vehicles and established that a lower capacity engine would be more suitable to the application. Thereafter, lower engine capacity vehicles were used which saved fuel and reduced their carbon footprint.

4.4.3.5. HR efficiencies

Almost all of the respondents agreed that there was an increase in HR efficiencies. Companies were no longer responsible for activities such as leave scheduling, sick leave, training costs, performance issues and union activity. Moreover, respondents reported that managers spent less time supervising staff and were therefore more productive. Others responded that the issue of theft was now passed onto the OSP. In the new arrangement, OSPs generally were invoiced for stock losses. Further, having an OSP also reduced the risk of theft, as employees were not able to collude.

4.4.3.6. Customer efficiencies

Almost all of the respondents indicated that the customers did not notice, or care that the deliveries were outsourced to an OSP. Customers were happy to receive their purchases in good order and on time.

One of the most frequent comments reported by the companies was the ability to better service their customers. Better service was achieved by processes such as having more frequent deliveries, reduced contamination and fewer damaged products. Some of the OSPs also tailored their services to ensure that deliveries were made at the most convenient time. As one respondent said, “Some of our customers are in the restaurant business, and

don't like deliveries during their luncheon service. Our OSP schedules those deliveries so that it does not clash with the restaurant's busiest time, which increased our customers' loyalty".

4.4.3.7. Other efficiencies

Most of the respondents agreed that outsourcing of the logistics function has had a positive impact on other areas of the business such as marketing, sales, production and warehousing. An example of such benefits was that sales felt much more confident since deliveries were made according to promises. Production was easier to plan since there were no longer any bottlenecks due to delayed deliveries. Another efficiency mentioned was the reduced need for warehouse space. Since deliveries were done more frequently, there was a reduction in the amount of storage space required. This in turn reduced inventory levels which reduced working capital.

No consensus could be arrived at regarding the effects of outsourcing on the administration function. Some respondents indicated that there was a reduction in paper work, while others indicated that there was an increase in the amount of administration. Companies that said administration had increased said there were additional measures that had to be implemented to maintain control. For companies that had implemented the owner driver programme, the company did all the administration for these service providers as the owner driver did not possess the necessary skills. For companies that reported lower administration, the reasons were that activities such as the filing of delivery notes were done by the OSP. As one respondent confirmed, "Our OSP takes care of all the delivery notes, and supplies us one's that we request. The logic being that should they not be able to produce a delivery note when requested, they take responsibility for the goods".

At least half of the respondents agreed that outsourcing gave them the ability to now compare themselves to other companies, as well as learn and share experiences from others. Companies that had previously operated in isolation, now had the ability to benchmark themselves with others. Another benefit was that OSPs usually implemented a best practice technique thus benefitting all the OSP's companies. A few of the respondents agreed that outsourcing had given them a competitive advantage. Although the comment was probed, it became difficult to quantify, as the benefits were difficult to measure.

4.4.3.8. Changes required by the organisation to implement outsourcing

Respondents of this study were asked the question of what organisation changes were required when outsourcing was implemented in their organisations. More than half of the respondents stated that no retrenchments were made as a consequence of outsourcing. Companies either redeployed affected employees to other areas of the organisation where possible, or the employees were taken over by the OSP, usually on the same terms and conditions as their current employment. The employees affected were mainly from a supervisory level downward. Managers were usually retained by the organisation in their existing roles. Some companies reduced the affected staff through natural attrition. One respondent confirmed that retrenchments were unavoidable and were conducted according to the South Africa Labour Relations Act.

At least half of the respondents indicated that a change management programme was implemented. The aim of this programme was to ensure that the change was as smooth as possible with minimum business disruption. Further, in order for the programme to be successful, the company needed buy in from the rest of the organisation.

4.4.3.9. Discussion of objective three

The analysis of the data revealed many benefits that accrued to the organisation after outsourcing. Some of the benefits were general in nature and were experienced by all, while some of the benefits were unique to a specific company or industry. Almost all of the benefits that were mentioned in the literature review had been realised in some form by the respondents. It was not possible to identify if companies that outsourced the entire supply chain function, which includes warehousing as well as deliveries, derived more benefit compared to companies that just outsourced deliveries.

4.4.4. Objective four: identify areas of concern resulting from outsourcing the logistics function

The fourth objective of the study was to identify areas of concern resulting from outsourcing the logistics function. The aim of the question was to discover what problems were experienced. Three key questions asked as per the interview schedule were:

- What were some of the most important expectations that were not met?
- How has the outsourcing of logistics affected business risk?
- What are some of the concerns with the current logistics outsourcing relationship?

To explore the objective further, secondary questions were asked such as, what impact has outsourcing had on internal controls, what impact has outsourcing logistics had on employees and what impact has outsourcing logistics had on quality? Being an open-ended and exploratory question, a large selection of responses was received. Some of the responses received were general in nature, while other responses were unique to some companies.

4.4.4.1. What were some of the most important expectations not met?

Two major themes emerged from analysing the responses from this question, namely HR concerns and operational concerns which are now explored in detail.

- **HR concerns**

The biggest concern that the respondents had was that the OSP employed the cheapest labour available. Because of this, the OSP experienced a high staff turnover rate which created a problem of continuity at the company since new employees needed induction and training. Another problem reported was that the OSP often rotated staff according to demand. This also created a problem of continuity.

Often, company employed personnel work side by side with OSP staff doing the same jobs. However, most of the respondents confirmed that the OSP usually paid a low wage rate compared to the company, for the same job. The respondents agreed that this created conflict between company employees and OSP employees. This problem was compounded by the fact that the company also offered better benefits to its employees, such as a pension which is not offered by the OSP.

One respondent complained that theft had increased after outsourcing to the OSP, but pointed out that the shortfall was borne by the OSP. Another respondent complained that the OSP became too conversant with company employees, which compromised some controls.

- **Operational concerns**

Many of the respondents complained that there was an increase in administration and paper work. As mentioned in Section 4.4.3.7, no consensus could be established from this study whether the administration of a company increased or decreased due to outsourcing. The operational concerns are listed in Table 4.6.

Table 4.6: Operational concerns with outsourcing

How has the outsourcing of logistics affected business risk?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total	
Operational concerns																	
Increase of administration and paperwork		✓			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	11
No reduction in cost achieved		✓		✓	✓			✓	✓		✓	✓	✓	✓			8
OSP is reactive rather than proactive		✓			✓	✓		✓		✓	✓			✓			7
Urgency in solving problems are slow		✓			✓	✓		✓		✓	✓					✓	7
Reduced contact with customers hampers flow of information					✓			✓	✓								3
Company has to consistently intervene to solve problems					✓	✓		✓									3
Company just another customer to OSP		✓	✓				✓										3
Organisation problems at OSP has impacted service delivery									✓		✓						2

At least half of the respondents confirmed that the OSP was often reactive instead of proactive in solving problems. A similar number of respondents agreed that sometimes the OSP showed no urgency in solving their problems. A few respondents commented that they had to often intervene to solve problems. A few respondents mentioned that the OSP treated the company equally to all its other companies. As one respondent mentioned, “Occasionally, one of our customer’s needs an urgent delivery to an area not typically serviced by our OSP. This creates a problem to the OSP who further outsources this leg to another supplier (vertical integration). The delivery cannot be executed immediately since the OSP does not service this route. Arguably, this created some tension between the company and the OSP”.

Another concern mentioned by a few respondents was that the flow of information from customer to company was hampered due to outsourcing. One unique problem experienced by one respondent was that internal management conflicts at the OSP ultimately affected the service delivery provided to the company. In this situation the company was helpless to resolve the conflict.

4.4.4.2. *The effect of outsourcing logistics on business risk*

Two major themes emerged from analysing the responses from this question, namely HR concerns and operational concerns which are now briefly discussed.

- **HR concerns**

At least half of the respondents commented that senior management was retained to minimise risk. The main reason given was that the managers possessed expert knowledge and had a history with the organisation and companies did not want to lose this expertise. Further, should the company ever consider bringing the logistics function in-house, it would already have the expertise required. On the contrary, some respondents commented that some key managers left the organisation due to outsourcing, which increased the company's risk.

- **Operational concerns**

Almost all of the respondents agreed that they had lost control of the situation and relied heavily on the OSP. In order to manage the relationship, many had entered into SLAs. Many of the respondents also expressed concerns that they only used one supplier which was risky, while a few used multiple suppliers to eliminate risk. Operation concerns are illustrated in Table 4.7.

Table 4.7: Operational concerns

How has the outsourcing of logistics affected business risk?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total	
Operational concerns																	
Loss of control		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Service agreement signed to maintain service levels and reduce risk	✓		✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	10
Risk increased from using one supplier		✓			✓			✓	✓		✓	✓	✓				7
Multiple OSP supplies used to eliminate risk	✓				✓	✓				✓					✓		6
Limited product knowledge can create problems		✓	✓						✓	✓							4
OSP holds company to ransom								✓		✓		✓	✓			✓	5
OSP rigid and not flexible			✓		✓			✓									3
Quality of product and standards decreased								✓									1
Reputation of company deteriorating								✓									1

In general some of the other concerns centred on the inflexibility of the OSP, and reduction of quality and standards. A few respondents complained that their image was tarnished by the OSPs use of employees without uniforms and trucks that were in a poor condition.

4.4.4.3. The concerns regarding the current logistics outsourcing relationship

In general, most of the respondents agreed that they had a good relationship with the OSP which was a long-term relationship that had developed over time. The SLA played a key part in managing the relationship especially in resolving disputes. According to the respondents, another problem was the decrease in the flow of information between the customer and the company. Both negative feedback and positive feedback from the customer to the OSP were rarely relayed back to the company. The company would only discover there was a problem when the customer contacted the company directly to complain. Two of the respondents confirmed that their own company did not possess the necessary skills to manage the OSP which resulted in the decrease of service levels and efficiencies.

4.4.4.4. Discussion of objective four

The area of concern that emerged from the data analysis is that the main concerns of outsourcing of the logistics function were HR and operational related issues. Ahearn (2012) stated that outsourcing created HR complications. The results of this study agree that employee insecurity, IR issues and loss of skill were some of the issues that emerged when companies outsourced. Similarly, operational issues such as the decrease in quality and service levels, OSP dependence, different management styles, conflict of interest and different objectives were discussed in the literature review.

4.4.5. Objective 5 - To establish what factors companies considering outsourcing should consider in their planning

The fifth and last objective of this study was to establish what factors companies considering outsourcing should include in their planning. The question asked was, “What in your opinion are some of the key factors that need to be considered in the outsourcing decision?” The data collected from the 15 respondents ranged from five responses to 20 responses with an average of 14 responses per participant. The responses received were a

culmination of the expertise and experience of the directors and managers interviewed. In general, some of the responses received were industry and company specific, while other responses received were more general in nature. The data was analysed and grouped into the following themes, namely strategic considerations, operational considerations, financial considerations, customer considerations and OSP selection considerations. The order of discussion is not a representation of the importance of each of the considerations.

4.4.5.1. Strategic considerations

Almost all of the respondents agreed that one of the most important factors to consider was the risk that was involved in outsourcing. Some of the risks identified that needed to be assessed were loss of control, reduction in quality, service and shrinkage. This agrees with findings in the literature review by Coyle *et al.* (2009) who stated that companies that outsource logistics completely become dependent on that supplier if the contract extends over a long period of time. The authors further stated that by entrusting an entire process to an OSP, an organisation will increase its risk of over-dependency. Moreover, companies may eventually lose the knowledge and skill that they once possessed internally prior to outsourcing. Table 4.8 ranks the comments received from the participants of this study.

Table 4.8: Strategic considerations

What in your opinion are some of the key factors that need to be considered in the outsourcing decision?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total	
Strategy considerations																	
Identify all risks	✓	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Complete analysis of business and strategy	✓			✓	✓	✓	✓			✓	✓		✓	✓	✓	✓	10
Identify global trends	✓						✓	✓	✓	✓	✓	✓		✓	✓		8
Detailed SLA	✓			✓			✓		✓	✓	✓	✓		✓	✓		9
Dedicated / exclusive service required					✓	✓	✓				✓	✓	✓				6
What are competitors doing		✓					✓			✓	✓				✓		5
Is the company prepared to loose some control					✓				✓	✓		✓				✓	5
What restrictions will be introduced by outsourcing					✓					✓		✓					3
Future development plans of organisation				✓					✓								2
Identify and clarify what companies expectations are					✓						✓						2
Understand the extent the company wants to outsource					✓												1

Most of the respondents concurred that the company should examine its outsourcing strategy so that it would assist the company in achieving its overall strategy. This is

consistent with the comments made by McIvor (2005) that a company's outsourcing strategy should be aligned with its business strategy to achieve competitive advantage and the company should conduct a thorough evaluation of its current and potential capabilities. Analysing the relative importance of the organisation's dimensions of activity and organisational capability in the context of outsourcing will lead to the development of a number of strategic options, as suggested by McIvor (2005).

A misaligned strategy could be disastrous for the organisation. A few respondents commented that the future plans of the company should also be considered in the outsourcing decision since outsourcing was a long-term commitment. They commented further that the company should also consider to what extent they wished to outsource. Similarly, respondents agreed that companies should explore what global and competitor trends were, and what customer expectations were needed to be met.

Just over half of the respondents commented that the SLA between the parties should try and eliminate as much risk as possible for the company. The SLA also served as a vital tool in the resolution of disputes. A few of the respondents commented that the option of a dedicated service should be considered. Although a dedicated service was more costly, it ensured better levels of service and performance. Respondents agreed that companies should acknowledge that some control would be lost by outsourcing, and how this change would be managed.

4.4.5.2. Operational considerations

Almost all of the respondents agreed that it was important that the company possessed the necessary skills to be able to manage outsourcing. This was critical to the success of the operation.

Many of the respondents agreed that consideration should be given to the nature of the product being delivered. Examples of factors that should be considered are risk of theft, shelf life, contamination, and hazardous goods. One respondent commented, "When we transport our product, we transport more air than product. In our industry, metric volume is an issue, not weight". Some of the respondents also agreed that the entire value chain should be considered. Outsourcing logistics should support the company's business level

strategy and strengthen the product development, marketing, materials management, production, sales and customer service functions. Table 4.9 illustrates the operational considerations for outsourcing logistics.

Table 4.9: Operational considerations

What in your opinion are some of the key factors that need to be considered in the outsourcing decision?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	Company 13	Company 14	Company 15	Total
----------------------------------------------------------------------------------------------------------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	------------	------------	------------	------------	------------	------------	-------

Operational considerations																
Does company possess skills to manage outsourcing	✓			✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	11
Consideration for type of product	✓	✓	✓			✓	✓	✓	✓				✓	✓	✓	10
Consideration of the entire value chain		✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	10
Volume of product being delivered							✓		✓	✓	✓		✓	✓	✓	7
Volume of product held by customer			✓								✓	✓	✓			4
Exclusivity/dedicated agreement needed												✓				1

The volume of product being delivered was mentioned as a key consideration. Volumes would determine the frequency of deliveries and the type of vehicles that need to be purchased. Volumes are also important to determine rates such as insurance and wear and tear on vehicles. The volume of product that a customer holds as stock is also relevant in the decision. A customer that holds a lower volume of product would require more frequent deliveries. One respondent said that it had signed an exclusivity agreement with its OSP. The company worked together with the OSP to perfect a delivery system that currently gives the company competitive advantage over its rivals. By partnering with suppliers, companies are able to achieve competitive advantage. This agrees with the findings of Ishizaka and Blakiston (2012) in the literature review who stated outsourcing should result in the development of a close and long relationship between an organisation and its OSPs to achieve the organisation’s goals and develop a competitive advantage.

4.4.5.3. Financial considerations

Just over half of the respondents agreed that cost was a major factor that should be considered in the outsourcing decision. Most OSPs charge companies per unit which should then be compared with the company’s delivery cost per unit. Further, companies should also consider cost benefits and paybacks from other departments. When asked how

OSPs should be evaluated, many agreed that one of the most comprehensive methods was by tender. However, none of the respondents mentioned using referrals from other companies. Many of the respondents also confirmed that a company should remember to consider hidden costs. Examples of hidden costs are penalties imposed by an OSP for idle time, underutilisation of vehicles/capacity and the responsibility for damaged goods.

4.4.5.4. Customer considerations

Almost all of the respondents commented that customers should not be worse off with the implementation of outsourcing. The reason for this is that customer expectations would already have been created with the original service. Many of the respondents agreed that one of the main reasons to outsource was to eliminate seasonality, and outsourcing should achieve a better service to the customer in peak periods. A few of the respondents mentioned that the company should ensure that the OSP employees were presentable to customers, since they portrayed the image of the company.

4.4.5.5. OSP selection considerations

Almost all of the respondents agreed that selecting the most suitable candidate as the OSP was paramount in the success of the outsourcing initiative. Of these respondents, almost all agreed that the reliability, size, flexibility and capability were of critical importance in servicing the customers' needs. Some respondents mentioned that the value adds, such as technology and expertise were important in the selection process. Some respondents agreed that the culture and management style of the OSP should be similar to the companies. Only two of the respondents used more than one OSP supplier. None of the respondents mentioned having an exit strategy should outsourcing fail.

This agrees with the findings of a study conducted by Kujawa (2003) on the criteria used by South African companies when selecting logistics service providers who ranked dependability/reliability, price and convenience/availability as the top selection criteria. The same study ranked organisational involvement as the least important criterion. Once a firm has made the strategic decision to outsource its logistics function, the next step is the selection of a service provider. The selection criteria used in selecting a supplier should consist of strategic, tactical and operational requirements critical to the company. McIvor,

(2005) maintained that a great deal of preparation must be done by the parent company before entering into an outsourcing agreement.

4.4.5.6. Discussion of objective five

The factors that have emerged from the analysis of objective five, such as strategic considerations, identification of risks and industry trends are consistent with those that were mentioned in the literature review by Trunick (1989), Lynch (2000), Elmuti (2003), Kathawala *et al.* (2005), Burt *et al.* (2010) and Jeffery (2011). The responses received also represent most industries in South Africa. No mention was made of an exit strategy should outsourcing fail. Further, the benefits of using multiple service providers should be explored.

4.4.6. Summary

This chapter presented the data obtained from the 15 interviews that were conducted with supply chain specialists from various companies. The results were analysed and presented in different formats such as discussions, tables and graphs. The presentation of results was grouped according to each of the objectives. Major and minor themes were identified and the discussion pivoted around these themes. Further, some shortcomings in outsourcing have been identified such as an exit strategy, and the advantages/disadvantages of using multiple suppliers. Chapter 5 will present the recommendations for businesses considering the outsourcing initiative.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

Due to the economic downturn, globalisation and advancement in technology, many companies are under extreme pressure to reduce costs and business interruptions. Moreover, improvements in terms of knowledge, flexibility and performance are forcing companies of all sizes and industries to increase their competitive position as well as profits. Companies are realising the need to focus on core competencies and outsource anything considered non-core or peripheral (Coyle *et al.*, 2009).

The main objective of this study was to understand the effects of outsourcing the logistics function by South African manufacturing companies. Based on the main objective, the secondary objective was to identify key drivers for outsourcing logistics and what factors companies should consider before outsourcing the logistics function.

5.2. KEY FINDINGS

This study discussed the concepts of outsourcing, and why more companies are adopting this concept to improve organisational competitiveness and efficiencies. The main conclusion drawn from this study is that the participants are in a better position than before they had outsourced logistics. Some companies achieved financial benefits, while some realised benefits such as increased efficiencies and economies of scale, and some realised a combination of both. The data analysis has confirmed that while there are many benefits that accrue to companies who outsource, there are also numerous challenges and major risk factors that have to be overcome. In order for all the benefits to be realised, it is critical that management is actively involved in the process from the beginning, establishing measurable goals and objectives.

There is a clearly a need for companies to thoroughly investigate the reasons for outsourcing to ensure that the strategy is successful. The primary reason for outsourcing noted in this study was due to HR/IR related issues as highlighted by one of the

participants, "...employee unions were one of the biggest issues for us". While the literature identified cost and efficiency as primary factors, these were identified as secondary in this study. This was due to localisation of the study.

Outsourcing logistics should support the company's business level strategy and strengthen the product development, marketing, materials management, production, sales and customer service functions. The information gained from industry experts in this study fully supports and strengthens what is already known in this area. This study has added a South African perspective by considering the benefits and challenges faced in the country.

5.3. RECOMMENDATIONS BASED ON FINDINGS

Recommendations of this study will serve as a way forward for the research. The recommendations are based on the findings of the research and the conclusions drawn from the findings.

5.3.1. Failure of owner driver programmes

It is evident from this study that one of the options available to companies when considering outsourcing is the possibility of awarding delivery contracts to eligible employees of the company and thereby creating an opportunity for the development of small and medium-sized enterprises. Outsourcing has become an important way of promoting the preferential procurement required by the BEE codes of good practice (Black Economic Empowerment Commission, 2006). However, many of the companies interviewed expressed reservations at pursuing this option for reasons given earlier. Companies should in future consider offering this form of outsourcing, but together with assisting the owner-driver with financial management of his business, which could ensure success for both parties.

5.3.2. Use of 4PL logistics service providers

Many of the larger companies interviewed used multiple service providers to provide for their logistics needs. Further, multiple 3PL companies were used to eliminate risk as well as benchmarking costs and services. However, managing multiple service providers is resource intensive. These companies should use the services of 4PL logistics companies

who will coordinate the efforts of the 3PL companies and thus create harmonisation and efficiency.

5.3.3. Consideration of an exit strategy

Not one of the respondents made any mention of the existence of an exit strategy should outsourcing fail. There may be many reasons for a company to terminate the outsourcing agreement such as performance issues or a change in strategy. There may be significant changes that need to be considered during an exit, such as transfer of knowledge as well as acquiring the necessary resources. A good exit strategy will prepare a company to exit outsourcing successfully with the least amount of business interruption. Every company that outsources should prepare an exit strategy.

5.3.4. Use of multiple service providers

Many of the larger companies interviewed confirmed the use of only one service provider. Given the nature and size of these organisations, these companies must consider the use of at least more than one service provider. While OSPs may provide incentives for companies to use them exclusively, the risk that is borne by the company far outweighs these benefits. Should the OSP close for example due to financial difficulty, the company will be left stranded temporarily with no product deliveries. This could possibly cause long-term harm to customers and the company. Further, the use of multiple suppliers allows a company to benchmark service and costs and even negotiate more favourable rates and service levels.

5.4. LIMITATIONS OF THIS STUDY

Being a qualitative study, the results of the research are usually not generalisable. However, the purpose of this research was not to obtain generalisable information, but rather to obtain expert opinions from those actively involved in logistics, which could be reproduced to ensure the reliability of the data.

This research could have been influenced by the individual skills of the researcher, or by the researcher's personal biases and idiosyncrasies. However, by using constant comparison meant that one piece of data (for example, the interview and interview schedule) was compared with previous data and not considered on its own. This enabled

the researcher to treat the data as a whole rather than fragmenting it. Constant comparison also enabled the researcher to identify emerging and unanticipated themes within the study.

5.5. RECOMMENDATIONS FOR FUTURE STUDIES

Further studies should consider the following aspects of outsourcing:

- **Effects of outsourcing multiple functions versus logistics**

No relationship could be drawn from this study regarding the effects of a company that outsourced logistics only, compared to companies that outsourced logistics and warehousing. It is possible that further research can quantify this relationship and allow for better decision making in the future.

- **Outsourcing and JIT**

JIT is not popular in South Africa yet and only used in a few manufacturing organisations. Given that many organisations are trying to improve efficiencies, it is possible that many of these organisations will eventually migrate to JIT production. Companies that could possibly supply a JIT production company should carefully consider how outsourcing could aid or hinder supply to such companies.

- **Effects of outsourcing and administration**

This study was unable to establish the effect on administration due to outsourcing. While some companies reported a reduction in paperwork and administration, others reported an increase. Further research in this area will clarify the effects of outsourcing on the administration function.

- **How outsourcing affects other departments**

More research should be conducted on how outsourcing affects other disciplines within the organisation, such as sales and marketing. While none of the respondents reported any negative effects, it will be interesting to understand the benefits.

5.6. SUMMARY

The aim of this study was to understand the effects of outsourcing the logistics function from a South African company's perspective. The objectives were to identify the key

drivers for outsourcing, to identify the financial value created by outsourcing, to identify organisational process efficiencies gained from outsourcing, to identify areas of concern resulting from outsourcing and to establish what factors companies should consider when planning outsourcing.

The aim and objective of this study have been met as the data analysed for the study has identified the reasons companies outsourced, identified the benefits and shortcomings of outsourcing, and provided criteria a company should consider when outsourcing. Despite some limitations, this study has proved to be beneficial to both companies that have already outsourced and to those that are considering outsourcing in the future.

REFERENCES

Adcorp, 2012. *SA labour productivity at the lowest level in 46 years*. [Online] Available at: <http://www.adcorp.co.za/NEws/Pages/SAlabourproductivityatthelowestlevelin46years.aspx>
x
[Accessed 15 May 2013].

Ahearn, R., 2012. *Globalization, Worker Insecurity, and Policy*, Washington: Congressional Services.

Anderson, J. D., 2006. *Qualitative and Quantitative research*. [Online] Available at: http://www.icoe.org/webfm_send/1936
[Accessed 12 May 2013].

Armstrong and Associates, 2011. *U.S. 3PL Market Size Estimates*. [Online] Available at: <http://www.3plogistics.com/3PLmarket.htm>
[Accessed 15 May 2013].

Bhatnager, R., Sohal, A. S. & Millen, R., 1999. Third party logistics services: A Singapore perspective. *International Journal of Physical Distribution and Logistics Management*, 9(29), pp. 569-587.

Bineham, G., 2006. *Qualitative Research*. [Online] Available at: http://www.thh.nhs.uk/documents/_Departments/Research/InfoSheets/15_qualitative_research.pdf
[Accessed 08 May 2013].

Black Economic Empowerment Commission, 2006. *South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment*. [Online] Available at: <http://www.info.gov.za/8ECE19DD-AFEA-41C0-8D48-F79B01A09675/FinalDownload/DownloadId->

FDC5C0AEA7084B03BA3412163E9C8090/8ECE19DD-AFEA-41C0-8D48-F79B01A09675/view/DownloadFileAction?id=70187

[Accessed 15 May 2013].

Bryne, P. M., 1993. A new road map for contract logistics. *Transportation and Distribution*, April, pp. 58-62.

Burns, G. E., Cook, B. P. & Warren CK, 2001. *Industry update: Transportation outsourcing survey. Emerging Trends in Logistics* , 2001: JP Morgan Securities Inc Equity Research.

Burt, D. N., Petcavage, S. D. & Pinkerton, R. L., 2010. *Supply Management*. International Edition ed. New York: McGraw Hill.

Cheong, M. L., 2003. *Logistics Outsourcing and 3PL Challenges*, Singapore: Nanyang Technological University .

Choi, K., 2008. *A general guide to outsourcing*, Hong Kong: The government of the Hong Kong special administrative region.

Chow, G. & Gritta, R., 2002. *The growth and development of the US third party logistics industry*. [Online]

Available at: <http://www.infochain.org/quarterly/Sp02/Chow.html>

[Accessed 12 May 2013].

Cooper, D. R. & Emory, C. W., 1995. *Business research methods*. 5th ed. Chicago: McGraw-Hill Irwin.

Council of Supply Chain Management Professionals , 2012. *Council of Supply Chain Management Professionals*. [Online]

Available at: <http://cscmp.org/digital/glossary/glossary.asp>

[Accessed 30 August 2012].

Creswell, J. W., 1994. *Research Design: Qualitative and Quantitative Approaches*. Thousand Oaks: Sage Publications.

De Villiers, G., Nieman, G. & Niemann, W., 2011. *Strategic logistics management - A supply chain management approach*. Pretoria: Van Schaik Publishers.

Elmuti, D., 2003. The perceived impact of outsourcing on organisational performance. *American Journal of Business*, 18(2).

Elmuti, D. & Kathawala, Y., 2000. The effects of global outsourcing strategies on participants attitudes and organisational effectiveness. *International Journal of Manpower*, 21(2), pp. 112-128.

Elmuti, D. & Kathawala, Y., 2000. The effects of global outsourcing strategies on participants' attitudes and organisational effectiveness. *International Journal of Manpower*, 21(2), pp. 112-128.

Foster, T. A. & Muller, E. J., 1990. Third Parties: your passport to profits. *Distribution*, October, pp. 30-32.

Gattorna, J., 2010. *Dynamic Supply Chains - Delivering Value Through People*. 2nd ed. Harlow: Pearson Education Limited.

Ghelfi, D., 2004. *The 'Outsourcing Offshore' Conundrum: An Intellectual Property Perspective*, Geneva: The World Intellectual Property Organization .

Handley, S. M., 2011. The perilous effects of capability loss on outsourcing management and performance. *Journal of Operations Management*, 30(1), pp. 152-165.

Handley, S. M. & Benton JR., W. C., 2009. Unlocking the business outsourcing process model. *Journal of Operations Management*, Volume 27, pp. 344-361.

Hoecht, A. & Trott, P., 2006. Innovation risks of strategic outsourcing. *Technovation*, 26(1), pp. 672-681.

Hugo, W. M. J., Badenhorst-Weiss, J. A. & Van Biljon, E. H. B. eds., 2004. Supply Chain Management: Logistics in Perspective. In: Pretoria: Van Schaik.

Ishizaka, A. & Blakiston, R., 2012. The 18C's model for a successful long-term outsourcing arrangement. *Industrial Marketing Management*, p. doi:10.1016/j.indmarman.2012.02.006.

Jeffery, A., 2011. *South African Institute of Race Relations*. [Online] Available at: <http://www.sairr.org.za/sairr-today-1/research-and-policy-brief-five-bills-building-state-and-union-power-8th-february-2011> [Accessed 11 January 2013].

Jones, C., 2012. *Advantages and disadvantages of qualitative and quantitative research*. [Online] Available at: http://www.ehow.com/info_8091178_advantages-disadvantages-qualitative-quantitative-research.html [Accessed 13 April 2013].

Jones, G. R. & George, J. M., 2009. *Contemporary Management*. 6th ed. New York: McGraw Hill.

Kathawala, Y., Zhang, R. & Shao, J., 2005. Global outsourcing and its impact on organisations: problems and issues. *International Journal Services Operations Management*, 1(2), pp. 185-200.

Keller, R., 2012. *Managerial Statistics*. 9th ed. New York: South-Western Cengage Learning.

Kujawa, B. J., 2003. *Logistics outsourcing issues in the South African manufacturing sector*, Johannesburg: University of Johannesburg - South Africa.

Lafontaine, F. & Slade, M., 2007. Vertical Integration and Firm Boundaries: The Evidence. *Journal of Economic Literature*, Volume L22,L24.

Langley JR, C. J., Albright, D., Fletcher, B. & Wereldsma, D., 2012. *2012 Third-Party Logistics Study - The State of Logistics Outsourcing*, Atlanta: Strategic Research Group.

Langley, C. J., Allen, G. R. & Tyndall, G. R., 2002. *3PL results and findings of of the 2002 seventh annual study*, Atlanta: Georgia Institute of Technology, Cap Gemini Ernest and Young, and Ryder Systems, Inc.

Langly JR., C. J. et al., 2009. *Managing Supply Chains - A Logistics Approach*. 8th edition ed. Atlanta: Cengage Learning.

Lynch, C. F., 2000. *Logistics outsourcing - A management guide*, Oak Brook: Council of Logistics Management.

Marshall, M. N., 1996. Sampling for qualitative research. *Oxford University Press*, 13(6), pp. 522-525.

McIvor, R., 2005. *The Outsourcing Process - Strategies for Evaluation and Management*. New York: Cambridge University Press.

O'Keeffe, P. & Vanlandingham, S., 2006. *Managing the risks of outsourcing*. [Online] Available at: <http://www.protiviti.com/en-US/Documents/Surveys/ManagingOutsourcingRisks.pdf> [Accessed 12 May 2013].

Ou, T. & Musa, S. N., 2011. Identifying risk issues and research advancements in supply chain risk management. *International Journal of Economics*, 133(1), pp. 25-34.

Patel, A. & Aran, H., 2005. *Outsourcing Success - The Management Imperative*. New York: Palgrave Macmillan.

Pearce II, J. A. & Robinson, Jr., R. B., 2003. *Strategic management - formulation, implementation and control*. 8th ed. New York: McGraw-Hill Irwin.

Quinlan, C., 2011. *Business Research Methods*. Hampshire: Cengage Learning.

Ravi, R., 2001. *eLogistics: Key trends in the logistics outsourcing marketplace*, Cedar Rapids: IDC - Bulletin.

Razzaque, M. A. & Sheng, C. C., 1998. Outsourcing of logistics: a literature survey. *International Journal of Physical Distribution and Logistics*, 28(2), pp. 89-107.

SAPA, 2012. *Labour productivity at 46-year low*. [Online] Available at: <http://www.iol.co.za/business/business-news/labour-productivity-at-46-year-low-1.1361360> [Accessed 16 May 2013].

Sapsford, R. & Jupp, V., 2006. *Data collection and analysis*. 2nd ed. London: Sage Publications.

Sekaran, U. & Bougie, R., 2011. *Research Methods for Businesses - A skill building approach*. 5th ed. Chichester: John Wiley & Sons Ltd.

Sharp, L., 2011. *Politics Web*. [Online] Available at: <http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71619?oid=271010&sn=Marketingweb+detail> [Accessed 2013 June 10].

Sheffi, Y., 1990. Third party logistics: present and future prospects. *Journal of Business Logistics*, 11(2), pp. 27-39.

Trunick, P. A., 1989. Outsourcing: a single source for many talents. *Transportation & Distribution*, July, pp. 20-23.

Van Laarhoven, P., Berglund, M. & Peters, M., 2000. Third-Party logistics in Europe - five years later. *International Journal of Physical Distribution & Logistics Management*, 30(5), pp. 425-442.

Vanderstoep, S. W. & Johnston, D. D., 2009. *Research Methods for Everyday Life*. 1st ed. San Francisco: John Wiley & Sons.

Vanderstoep, S. W. & Johnston, D. D., 2009. *Research methods for everyday life - Blending Qualitative and Quantitative Approaches*. 1st ed. San Francisco: John Wiley & Sons Inc.

Vogel, J., 2001. *4PL® Report*, London: Lehman Bros.

Vries, J. & Vaart, J. T., 2004. Supply chain management relatives. *Management and Organisation*, Volume 3, pp. 5-25.

White, B., 2002. *Writing your MBA dissertation*. New York: Continuum.

APPENDIX 1

Introductory letter

UNIVERSITY OF KWAZULU-NATAL GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP

MBA Research Project

Researcher: Shaun Soodyall (031) 710 1791

Supervisor: Professor Anesh Maniraj Singh (031) 260 7061

Research Office: Ms P Ximba (031) 260 3587

Dear Participant,

I, Shaun Brendan Soodyall, am an MBA student at the Graduate School of Business and Leadership, at the University of KwaZulu Natal. You are invited to participate in a research project entitled: **The effects of outsourcing the logistics function at South African manufacturing companies**. The aim of this study is to: To determine the level of satisfaction of companies that has outsourced the logistics function.

Through your participation, I hope to understand the effects that outsourcing of logistics function has had on a manufacturing company. The results of the interviews are intended to contribute to the body of knowledge in the discipline of outsourcing.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this interview. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN. If you have any questions or concerns about participating in the interview, you may contact me or my supervisor at the numbers listed above. The interview should take about 20 minutes to complete. I hope to use this time valuably and not disturb your normal duties.

Sincerely

.....
Investigator's Signature

.....
Date

APPENDIX 2

Consent letter

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

MBA Research Project

Researcher: Shaun Soodyall (031) 710 1791

Supervisor: Professor Anesh Maniraj Singh (031) 260 7061

Research Office: Ms P Ximba (031) 260 3587

CONSENT

I..... (full names of participant) representing(company name) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

.....

Signature of Participant

.....

Date

APPENDIX 3

Interview Schedule

The effects of outsourcing the logistics function at South African manufacturing companies

To identify the key drivers for outsourcing the logistics function.

1. What are some of the most important factors that were considered before making the decision to outsource?

To identify the financial value created by outsourcing the logistics function.

2. What impact has outsourcing the logistics function had on your revenue?
3. How did outsourcing logistics impact fixed costs and variable costs?
4. How did outsourcing logistics impact profitability?

To identify organisational process efficiencies from outsourcing the logistics function.

5. What process efficiencies were brought about from outsourcing the logistics function?
6. What changes were required by the organisation to implement outsourcing?

To identify areas of concern resulting from outsourcing the logistics function.

7. What were some of the most important expectations that were not met?
8. How has the outsourcing of logistics affected business risk?
9. What are some of the concerns with the current logistics outsourcing relationship?

To establish what factors companies considering outsourcing should consider in their planning.

10. What in your opinion are some of the key factors that need to be considered in the outsourcing decision?

APPENDIX 4
Ethical clearance



05 April 2013

Mr Shaun B Soodyall (203514208)
Graduate School of Business & Leadership
Westville Campus

Protocol Reference Number: HSS/0169/013M
Project Title: The effects of outsourcing the logistics function at a South African manufacturing company

Dear Mr Soodyall

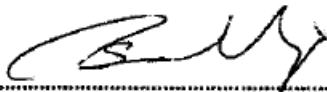
Expedited Approval

I wish to inform you that your application has been granted Full Approval through an expedited review process:

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



.....
Professor Steven Collings (Chair)
/ms

cc Supervisor: Professor Anesh M Singh
cc Academic Leader: Dr E Munapo
cc School Admin: Ms Wendy Clarke