

**EFFECT OF LOGISTICS OUTSOURCING MANAGEMENT ON CONSUMER GOODS
INDUSTRY'S PERFORMANCE IN NIGERIA**

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ABSTRACT

Thousands of new products and services have been introduced over recent decades and are sold and distributed to consumers all over the world. In view of these, market has thus become increasingly competitive over the last two decades, in particular, companies have found it increasingly difficult to maintain traditional profit level and growth rates. These companies have not only had to increase in complexity to meet the challenges of demand and expanding markets, products and services but must constantly be investigating new strategies for improving their competitive advantage and profitability. this paper examines the effect of logistics outsourcing management on cost reduction and companies' profitability of consumer goods industries. The study was carried out in six states within the six geopolitical zones in Nigeria. Twelve (12) manufacturing companies with 12,054 staff strengths were selected from the list of quoted consumer goods companies (Nigerian Stock Exchange,2019). Multistage sampling procedures such as cluster sampling was used to pool the manufacturing firms within the study area; stratified sampling was used to group the firms into sectors; and purposive sampling was used to select twelve (12) consumer goods companies. Total of 12 consumer goods industries were selected out of 21 consumer goods industries. This also cut across the six geopolitical zones in Nigeria. The respondents for the study were chosen from senior staff and directors from the logistics department, financial department and procurement department of the industries due to their involvement in decision making for the smooth operations of the industry. The sample size represents 15% of the staff strength of each department under study; 81 respondents were sampled from logistics department of the 12 companies, 49 respondents from the finance department form 12 companies, 61 respondents from procurement department from 12 companies and 36 directors (1 director from each department) from 12 companies, this makes 227 respondents. 227 questionnaires were therefore administered and 200 were returned (88.1percent) and used for the

analysis. and secondary data sourced from the financial records of the companies were used for the study. Regression model postulated for the findings showed that logistics outsourcing has positive significant effect at 0.05 level of significance on companies' performance. It is therefore important that Companies should recognise the importance of logistics management outsourcing in a competitive business environment.

KEYWORD: Logistics Management, Outsourcing, Performance, Consumer Goods Industry

1.0 INTRODUCTION

Organizations and firms are in stiff competition all over the world and they need to devise means in resolving the issues by becoming more innovative and flexible in their various operations. Over the years, services and products have improved in complexity and variety, as have the needs of consumers so is also the logistics services which have superior as countrywide and global markets of products and services have expanded. Thousands of the latest services and products had been added over many years and are offered and distributed to consumers all around the world. In view of these, the market place has, for this reason, grow to be more and more aggressive over the past decades, in particular, organizations have observed it as an increasing number of hard to keep conventional profit level and growth rates. These organizations have now no longer only needs to grow in complexity to satisfy the demanding situations of demand and increasing markets, services and products, however, they have to continuously investigate new techniques for enhancing their aggressive benefits and profitability.

Logistics management affords the main supply of aggressive benefit to groups though making sure that they are able to usually reply quicker and effectively than the competition to the customer's necessities on an international basis. Outsourcing of logistics requirements holds the potential to optimize the role of logistics of a company, which may therefore lead to many improvements and other possibilities for the organization. It increases customer service level, reduces supply chain costs, reduces capital requirements, increases competitive advantage and profitability. Outsourcing is a sensitive issue for employees as it is accompanied by the consciousness of retrenchment that leads to unemployment (Kujuwa, 2010)

Furthermore, the service provider may also be unable to reduce costs or comply with the set standards. They may provide inadequate skills, knowledge and technology, and fail to provide improvements in service and a reduction in time and effort spent on the outsourced activity. Other problems also arise due to companies searching for shortcuts to handle incompetence, financial pressures or technological weakness. In order to ensure success, outsourcing must be a strategic decision, planned, and executed initiative. Therefore, it is important to verify how manufacturing resolves the issue of operation at all cost. Based on this premise, the objective of the study is to analyse the effect of logistics outsourcing management on performance of consumer goods industries.

2.0 LITERATURE REVIEW

Logistics Outsourcing

Logistics outsourcing is defined as the process that involves the use of external logistics companies to perform activities that have traditionally been performed within an organization, where the shipper and logistics company enter an agreement for delivering services at specific costs over some agreed period of time. Outsourcing is the transfer of the management of the day-to-day execution of an entire business or organizational function to a third-party service provider. The decision to outsource is often made in the interest of lowering a firm's cost and conserving energy directed towards the core functions of the firm, to make more efficient use of labor, capital, technology, and resources (Vallespir *et al.*, 2001, Quinn *et al.*, 1994). This is often made at a strategic level, the organization going into outsourcing and the supplier enters into a contractual agreement that defines the transferred services (Weele, 2005).

According to Harrison *et al.* (2002), the importance of outsourcing becomes particularly evident when companies look critically at their internal structure and resources. Outsourcing provides companies with greater capacity for flexibility especially in the purchase of rapidly developing new technologies. Firms can save on capital investment, and thus reduce financial risks by outsourcing logistics activities. Investment in logistics assets, such as physical distribution centres or information networks, usually needs a large sum of money, which involved high financial risk.

During the last few years, companies tend to cut back their own activities more and more. These are the activities through which the company creates a sustainable, differentiated competitive advantage on the market on which it is operating. (Weele, 2005). International competition obliges the management of large companies to undertake all possibilities of cost reduction and increased efficiency. The result of this is that a big part of the production costs is related to purchase materials and services. In growing numbers, suppliers get involved directly and indirectly in programs involving cost reduction, quality increase, and throughput time. A result of this trend is that companies need to level more and more activities with their suppliers. Therefore, purchasing companies tend to increase their demands to supplying companies. Concerning logistical service providers, these are most of the time and not concerning the service (Functional specifications).

In line with the increase in industry competition and end-customers demand for better service quality, more firms are adopting the strategy of 'co-operating to compete in the interests of minimizing costs and maximizing service quality and enhance performance (Min *et al.* 2005; Lambert *et al.* 2004). Among different forms of strategic collaboration, logistics outsourcing, the provision of logistics services through third-party logistics service providers, is part of an ongoing

trend toward outsourcing logistics activities by manufacturers, distributors, and retailers (Cho *et al.* 2007).

In literature, many papers dealt with outsourcing decisions in the logistics area especially in the areas of motives and benefits for outsourcing. The research activities found in the literature were based on empirical investigations as well as literature evaluations. Several factors facilitating logistics outsourcing were identified in recent years. A handful of researchers identified cost reduction or other cost-related aspects as key factors for logistics outsourcing. Wilding and Juriado (2004) conclude after a broad literature review that cost aspects are most important in the context of outsourcing. Additionally, other factors related to costs are often mentioned; reduction of assets owned by companies in the house leads to changes in their cost structure, turning fixed costs into variable costs (McGinnis *et al.*, 1995, Van Damme & Van Amstel, 1996, Sink & Langley, 1997, Razzaque & Chang, 1998, Weber & Engelbrecht, 2002, Langley *et al.*, 2005). The same effect leads to a reduction of capital employed (Van Damme & van Amstel, 1996, Weber & Engelbrecht, 2002, Lynch, 2004).

Furthermore, according to Van Damme and Van Amstel, (1996); logistics service providers can realize economies of scale, which enable them to perform logistics operations at lower costs since they can share part of this cost advantage with their customer. This is because outsourcing of logistics functions is an emerging industry in the world and the market continues to grow with it (Kersten, 2006). Logistics outsourcing is an important option for companies that perceive the existence of gaps between what they want to accomplish with their logistics operations, and what they can achieve with their in-house expertise (Buxbaum, 1995). According to Cahill (2007), logistics outsourcing is a relationship in which the service provider offers at least two services that are bundled and combined, with a single point of accountability using distinct information systems that are dedicated to an integral part of the logistic process. Various theoretical perspectives also explain the potential benefits derived by firms engaging in outsourcing (Barney, 1991; Poppo and Zenger, 1998; Williamson, 1975). For example, focus on core business, risk reduction, cost savings, time-saving.

Logistics Outsourcing and Firm's Performance

The individual firm has unique bundles of resources, competencies, and capabilities that form the basis for competitive advantage but no firm holds all of these attributes to compete effectively. Resource-dependence theory (Kedia and Lahiri, 2007) posits that strategic alliance, such as logistics outsourcing, is, therefore, a means by which firms pool their resources and capabilities.

By outsourcing their logistics services, firms can benefit by leveraging the third-party's expertise in high-end skill base, cumulative domain expertise, and industry-specific knowledge that result in integrated, innovative solutions (Kedia and Lahiri, 2007). For example, Knemeyer et al. (2003), and Lieb and Randall (1999) point out that firms can reduce cost and increase customer service by outsourcing their logistics functions. Cho et al. (2007) also found that outsourcing contributes to increasing a firm's logistics capability, which allows it to conceive of and implement strategies that improve efficiency and effectiveness (Barney, 1996).

Logistics outsourcing refers to the transfer of all or part of the logistics functions to be performed on behalf of the firm by third-party logistics service providers (Lieb & Randall 1996; König & Spinler 2016; Van Laarhoven, Berglund & Peters 2000). Pratap (2014) argued that logistics outsourcing can best be explained by the Resource Base View (RBV) and Transaction Cost Economies theories (TCE). The RBV theory holds that an enterprise can acquire resources and capabilities through outsourcing to meet its customers' needs (Wong & Karia 2010). Similarly, the TCE theory highlights that logistics outsourcing provides an avenue for conducting business at lower transaction costs when compared to in-house operations, thus improving firm performance (Bolumole, Frankel & Naslund 2007; Pratap 2014). The RBV and TCE theories have been applied extensively in logistics outsourcing research (Liu *et al.* 2015; Pratap 2014), depicting their relevance to guiding the development of predictive models in logistics management. Past research has identified the increased importance of logistics across the globe in determining overall firm performance, as supply chains become complex (König & Spinler 2016), thus reinforcing the importance of the study.

The growing significance of logistics among firms can further be revealed by the increased spending and its central role in improving customer service (Langley & Capgemini 2016). As logistics performance becomes more significant, firms are expected to focus on their core business areas, leaving logistics to be outsourced to expert logistics service providers (LSPs) (König & Spinler 2016; Rahman & Wu 2011). Using LSPs implies that the firms (in this case manufacturing SMEs) would access the logistics capabilities they lack in-house, as they focus on their core manufacturing activities to improve performance (König & Spinler 2016; Langley & Capgemini 2016; Murphy et al. 2012). Logistics outsourcing is also adopted to reduce logistics costs and as a long-term strategy to increase customer satisfaction and improve overall enterprise performance (Fawcett, Magnan & McCarter 2008; Lee, Lin & Cheng 2013). Logistics activities that are commonly outsourced can be classified into operational (transportation, fleet management, clearing, and forwarding), information processing (logistics information system, procurement and order management, product track and trace), and strategic and value-adding services (inventory, warehousing, and packaging management) (Langley & Capgemini 2016; Liu *et al.* 2015; Solakivi *et al.* 2011).

Firm performance refers to how well a firm achieves its overall goals, both financial and non-financial (Kasie & Belay 2013; Quang *et al.* 2016). Financial measures such as return on assets (ROA) and profitability are objective as they make use of actual figures, whereas non-financial measures, such as customer satisfaction, use perception and are generally subjective (Tseng & Liao 2015; Yang, Marlow & Lu 2009). Measuring firm performance is not an easy task as one should select the most appropriate measures for the industry, period (long-term and short-term), and firm size to achieve the desired results (Kasie & Belay 2013; Quang *et al.* 2016).

Several scholars, Muchuki & Aosa (2011); Richard *et al.*, (2009); Jacobson,(1988) and Waring, (1996) argued that measuring organizational performance presents a challenge. This is so, as it is not a one-dimension theoretical construct and is not likely to be characterized with a single operational measure. The common measures used to measure organizational performance include; financial market measures, mixed accounting/ financial market measures (Shareholder value analysis, cash flow per share, market value-added, etc) survival, and subjective measures.

Kaplan and Norton (1996) advocated for the use of balanced scorecards as the ultimate measure of organizational performance. The balanced scorecard explicitly covers domains of financial, customer outcome, innovation, and internal process.

3.0 METHODOLOGY

Nigeria is located in western Africa on the Gulf of Guinea and has a total area of 923,738km² making it the world's 32nd largest country (after Tanzania). It is comparable in size to Venezuela and is about twice the size of the US state of California. Its borders span 4,047km and it shares borders with Benin, Niger, Chad, Cameroon, and has a coastline of at least 853km. Nigeria lies between latitudes 40⁰ and 140⁰ N and longitudes 20⁰ and 150⁰ E. Nigeria is divided into thirty -six states and one Federal Capital Territory, which are further divided into 774 Local Government Areas. The states are aggregated into six geopolitical zones, North West, North East, North Central, South East, South-South, and South West. (Constitution Amendment, 2012). Nigeria has eight cities with a population of over 1 million people according to the 2006 census, some of which are Lagos, Kano, Ibadan, Benin City, Port Harcourt, among others.

Nigeria is classified as a mixed economy emerging market. It has reached a lower-middle-income status according to the World Bank (World Bank, 2011) with its abundant supply of natural resources, well-developed financial, legal, communications, transport sectors, and stock exchange which is the second-largest in Africa. Nigeria was ranked 21st in the world in terms of GDP(PPP) in 2015 (World Bank,2017). Agriculture used to be the principal foreign exchange earner (Ake, 1996). Major crops include beans, sesame, cashew nut, cassava, cocoa beans, groundnuts, gum Arabic, etc. (Ake, 1996). The population of the study are the staffs from the twenty-one (21) manufacturing companies listed under the consumer goods sector on the Nigerian Stock Exchange (NSE, 2019). This study adopts multi-stage sampling procedure. This involves three sampling

designs. At stage 1, industries under the consumer goods sector were clustered based on their appearance within the study area using cluster sampling. At the second stage stratified sampling technique was used to group the industries according to their staff strength. Industries with staff strength lower than 500 were not considered for the study. Purposive sampling was used at the third stage to select the industries that engaged in the production of consumer staple and food and beverages products. Total of 12 consumer goods industries were selected out of 21 consumer goods industries. This also cut across the six geopolitical zones in Nigeria but only five geopolitical zones were sampled due to insurgency in the Northern region. The respondents for the study were chosen from senior staff and directors from the logistics department, financial department and procurement department of the industries due to their involvement in decision making for the smooth operations of the industry. The sample size represents 15% of the staff strength of each department under study; 81 respondents were sampled from logistics department of the 12 companies, 49 respondents from the finance department form 12 companies, 61 respondents from procurement department from 12 companies and 36 directors (1 director from each department) from 12 companies, this makes 227 respondents. 227 questionnaires were therefore administered and 200 were returned (88.1percent) and used for the analysis. Simple percentage and multiple regression were used to analyse data and Analysis of Variance (ANOVA) to test the stated hypothesis

Table 1 Selected Companies for the Study

S/N	Name of Industry	State	Staff Strength	No Sampled in the Department and Directors						
				No of staffs in Logistics Dept	No Sampled (15% of staff in Logistics Dept)	No of staff in Finance Dept	No Sampled (15% of staff in Finance Dept)	No of staff Procurement Dept	No Sampled (15% of staff in Procurement Dept)	No of Directors for all Depts
1	Cadbury Nig. Plc.	Lagos	700	40	6	12	2	15	2	3
2	Champion Brew. Plc.	Akwa Ibom	500	20	3	15	2	25	4	3
3	Dangote Flour Mills Plc	Lagos	890	48	7	20	3	35	5	3
4	Dangote Sugar Refinery Plc	Kwara	694	25	4	24	4	20	3	3
5	Flour Mills Nigeria. Plc.	Kano	1950	50	8	50	8	40	6	3
6	Guinness Nigeria Plc	Edo	1332	60	9	45	7	55	8	3

7	Honeywell Flour Mill Plc	Lagos	1392	76	11	32	5	42	6	3
8	International Breweries Plc.	Anambra	500	26	4	22	3	32	5	3
9	Mcnichols Plc	Ogun	500	15	2	15	2	10	2	3
10	Nascon Allied Industries Plc	Lagos	593	25	4	18	3	24	4	3
11	Nestle Nigeria Plc.	Lagos	1578	100	15	38	6	54	8	3
12	Nigerian Brew. Plc.	Abia	1425	55	8	35	5	55	8	3
Total Sampled				540	81	326	49	407	61	36

Source: Field Survey, (2020)

4.0 FINDINGS AND DISCUSSION

The findings shows that the relationship between logistics outsourcing and companies' performance was positive and statistically significant; F-ratio is given as 4.211 which is statistically significant at $P < 0.05$. The finding shows that companies set some key determinant indicators to monitor their performance level. It is on these factors that the independent variable hinged on. Although not all independent variables are significant as predicted, this could be buttressed by the results reported in the studies by Chatzoglou and Sarigiannidis (2009) and Hsiao et al. (2011) studies, which found no statistically significant relationship between logistics outsourcing and performance. Similarly, it is partly supported the Cho et al.'s (2008) study. This suggests that logistics outsourcing benefits relating to performance of manufacturing companies are not straightforward as earlier expected, but might be dependent on factors other than just outsourcing.

By outsourcing their logistics services, firms are able to benefit by leveraging the third-party's expertise in high-end skill base, cumulative domain expertise, and industry-specific knowledge that result in integrated, innovative solutions (Kedia and Lahiri, 2007)

Table 1 shows the regression result of logistics outsourcing as it affects companies' performance. The regression equation is given thus:

$$CP = 3.656 + 0.004BF + 0.084CR + 0.96OF - 0.300SD - 0.293DT + 0.120OQ + 0.447CL - 0.121CA + 0.099MS$$

Table 2 indicates that there is an R^2 of 67.9%. this means that 67.9% of the changes in the company's performance are explained by the changes in the independent variables in the model. The remaining 32.1% of the changes in dependent variable Y is explained by other factors not in

the model. The correlation coefficient R has the value of 0.824 while the R^2 is 0.679; this shows the combined effect of the independent variable on the dependent variable.

Table 3 shows the effect of logistics outsourcing on companies' performance. Company performance is measured by the following independent variables used in the model; Business Focus, Cost and Revenue, Operational Flexibility, Service Delivery, Delivery Time, Overall Quality, Customer Loyalty, Competitive Advantage and Market Share. From the regression model, Service delivery, delivery time, customer loyalty and competitive advantage with correlation coefficients of -0.300 significant at $P < 0.05$; -0.293 significant at $P < 0.05$; 0.447 significant at $P < 0.05$ and -0.121 significant at $P < 0.05$ respectively. This implies that a unit increase in service delivery will lead to a unit decrease in companies' performance, a unit increase in delivery time leads to a unit decrease in companies' performance, unit increase in customer loyalty led to a unit increase in companies' performance and a unit increase in competitive advantage leads to a unit decrease in companies' performance. Thus, it can be said that since there is a positive significance between these independent variables, they will lead to an increase in the dependent variable. This assertion can be corroborated by the work of Kedia and Lahiri, (2007) which implies that companies will be able to improve their performance through outsourcing when outsourcing is strategically planned for.

Holding all other factors constant, Business focus, Cost and revenue operational flexibility, overall quality and market share with correlation coefficient of 0.004, 0.084, 0.96, 0.120, 0.099 respectively are not significant at $P < 0.05$ implies that logistics outsourcing management will not necessarily help companies to achieve these objectives in their firm, it is therefore imperative for companies to reconsider the strategy involved in outsourcing their logistics activities. According to Asiago (2013) findings, that different elements of outsourcing in measuring companies' performance varies from one company to another. What is applicable in the Telecommunication Industry is different from that is obtainable in the manufacturing company.

The study used ANOVA to establish the significance of the regression model and test the third objectives of the study which states that logistics outsourcing do not have significant effect on Companies Performance from which an F significant value of $P > 0.000$ was established. This shows that the regression model has less than 0.000 likelihood of giving wrong prediction. Hence the overall regression model is statistically significant. It was discovered that the variables that have impact on companies' performance are statistically significant at ($P < 0.05$); this forms the crux for which Manufacturing Companies outsource their non – core activities. Therefore, the hypothesis which states that outsourcing Logistics Services do not have significant effect on Companies' Performance is rejected. This finding is in tandem with Solakivi et al, 2011.

Table 2 Model Summary of the Effect of Logistics Outsourcing on Companies

Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824 ^a	.679	.635	.692

Source: Field Survey, (2020)

Table 1 Regression Result of the Effect of Logistics Outsourcing on Companies Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Remarks
	B	Std. Error	Beta			
(Constant)	3.656	.518		7.061	.000	
Business Focus	.004	.014	.021	.303	.762	Not Significant
Cost and Revenue	.084	.102	.072	.825	.411	Not Significant
Operational Flexibility	.096	.081	.110	1.188	.236	Not Significant
Service Delivery	-.300	.088	-.284	-3.394	.001	Significant
Delivery Time	-.293	.088	-.352	-3.351	.001	Significant
Overall Quality	.120	.069	.148	1.734	.085	Not Significant
Customer Loyalty	.447	.090	.473	4.939	.000	Significant
Competitive Advantage	-.121	.052	-.179	-2.358	.019	Significant
Market Share	.099	.094	.096	1.050	.295	Not Significant

Source: Field Survey, (2020)

Table 3 Test of Hypothesis

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.151	9	2.017	4.211	.000 ^a
	Residual	91.004	190	.479		
	Total	109.155	199			

Source: Field Survey, (2020)

5.0 CONCLUSION AND RECOMMENDATION

The relationship between logistics outsourcing and companies' performance was positive according to the findings. The finding also showed that companies set some key determinant indicators to monitor their performance level. It is on these factors that the independent variable hinged on. It can also be deduced that logistics outsourcing benefits relating to performance of manufacturing companies are not straightforward as earlier expected, but might be dependent on factors other than just outsourcing, as also argued by Solakivi et al. (2011). By outsourcing logistics services, firms are able to benefit by leveraging the third-party's expertise in high-end skill base, cumulative domain expertise, and industry-specific knowledge that result in integrated, innovative solutions (Kedia and Lahiri, 2007)

Outsourcing also has a significant effect on companies' performance and the market at large, this invariably helps the manufacturing companies to effectively perform in a competitive environment. Therefore, there is need for Companies to identify their core competencies and non-core activities by outsourcing non – core activities such as some of its logistics activities, a company will leverage expertise and facilities of a company whose core competency is logistics service provision. Also, by understanding its core business, the company will be in better position to identify those logistics activities which are most suitable for outsourcing. Companies should engage in strategic decision making to foster growth in the area of their core competence.

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