

# Resilience and Organizational Performance of Indigenous Third Party Logistic Businesses in Transport Sector in Kenya

Dr. Mary Mwanzia

Jomo Kenyatta University of Agriculture and Technology (JKUAT), Nairobi Kenya

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**Abstract:** The main objective of this study was to Resilience and organization performance of indigenous third party logistic businesses in the transport sector in Kenya. The third party logistics industry has been constantly changing due to global industry consolidation, technology integration, industry specialization, and industry alliance networks. Literature presents resilience for creating organizational performance. This paper was to analyze from the retailers' perspective, how resilience of third party logistics providers could meet the customers' needs better and create organization Performance in the third party logistics market. The empirical data was collected through Questionnaires and interview schedules. In total 181 Logistic firms were to take part in the survey, Census enquiry was used to get the sample where operations managers in the indigenous third party logistic companies were respondents who were interviewed. The collected data was analyzed using descriptive research design an exploratory factor analysis, multi- collinerity test, inferential statistical analyses and linear regression tests was carried out for each variable in the study. Data analysis was done using SPSS to generate quantitative reports through tabulations, percentages, and measures of central tendency. Validity and reliability was tested using a pilot study.

**Keywords:** Resilience and organization performance, Transport Sector.

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## 1. INTRODUCTION

### 1.1 Background of the study:

Berglund et al. (1999, p.59) define 3PL as “activities carried out by a logistics service provider on behalf of a shipper and consisting of at least the management and execution of transportation and warehousing activities.” Berglund et al. (1999) mention that 3PL contract should also contain some management, analytical or design activities.

This paper we define 3pl as a provider of outsourced logistics service like transportation or warehousing or could include integration of supply chain. 3pl have the potential to offer more than a single service .For the last two decades, outsourcing of logistics services has been one of the most popular logistic decisions (Knemeyer & Murphy, 2005). Firms embark on this relatively new strategy by using Third Party Logistics (3PLs) and/or Fourth Party Logistics (4PLs) as their source of logistics services instead of sourcing them internally. Abdullah, Mohamed, Othman, & Uli, (2009) argue that at the moment firms tend to outsource their manufacturing activities than how they did a decade ago. The decisions involved in assessing whether to outsource or not are in line with the popular make-or-buy decisions. Globalization forces coupled with institutional and structural reforms that are embryonic in Africa pledge for a fast-tracked economic upsurge and opportunities in the continent. With its aggressive pursuing of economic and political integration, East Africa is one of the regions with such enormous development potential. Like other regions in Africa, it is rich in minerals and other natural resources. This makes it not only a critical source of raw materials for different industries but also a common market for local and global companies. As business networks grow and complexities in operations increases it is absolutely important

to understand challenges of doing business in the region. For firms aspiring to enter this market, it is imperative to get hold of this understanding and up to date knowledge on how to achieve relevant and finest logistic capabilities in the region.

Even though 3PLs organizational performance is a relatively new practice, significant literatures on the topic are available, Europe (Wilding & Juriado 2004), North America (Lieb & Lieb 2009, Lieb 2008, Lieb & Butner, 2007) and Asia Pacific region (Abdullah et al. 2009, Power et al. 2007 & Chen et al. 2010). This is suggestive of the extent this topic will be explored both, quantitatively and qualitatively. The purpose of this paper was to analyze from the retailers' perspective, how critical success factors of 3PL providers could meet the customers' needs better and create organizational Performance in the 3PL market. Furthermore, the purpose of the research is to find out which are the main critical success factors, according to the customers' needs, the best directions that 3PL providers should follow for their organization performance.

### **1.1.1 Stages of 3PL evolution, Global and Kenyan Transport and SCM Development:**

The development of the 3PL industry can be divided into three main stages. The first one was in the early 1980's when only traditional logistics service providers existed such as transportation companies, warehouses, forwarders, shippers and agents. The second stage was in the early 1990's when network players, mainly parcel and express companies got involved in the industry. These were companies such as DHL, UPS and TNT. The third and the last stage of evolution started in the late 1990's, when companies from different sectors such as consulting, finance and IT companies entered the 3PL industry (Berglund, Laarhoven, Sharman & Wandel, 1999).

As international business broadens its scope and horizons, logistics and SCM become increasingly more complex and challenging. The shift towards worldwide manufacturing and assembling operations has led to a greater role for logistics and SCM to provide dedicated services for customers and supply chain partners. Bowersox and Calantone found in 1998 that worldwide logistics firms had expended more than US\$3.4 trillion to achieve product and material positioning.

In 2001, 3PL business had an annual worldwide value of around US\$320 billion. The industry has grown at an annual rate of 3-10% (KTA, 2002). The global SCM market was estimated to grow to US\$173.7 billion during 2005, which represents a compound growth rate of 10%. SCM integrates the individual activities within the supply chain to offer customers a complete "end-to-end" service. Worldwide trends indicate an increasing preference by companies to opt for integrative SCM outsourcing models, which encompass the co-ordination of three flows –physical, information, and cash. The demand for SCM services is likely to grow against the backdrop of greater outsourcing, globalization, the advent of new products, and shorter product life cycles (Ellram and Cooper, 1990). There would be further global expansion of 3pl and SCM activities in the future. Regionally, the African SCM market is poised for robust growth. Annual SCM growth rates are 7% in Europe, 10% in North America, and 15% in Africa. The high growth rate in Africa is confirmed by a JP Morgan research survey that shows that African shippers have outsourced only about 2.5% of their logistics functions compared to the figures of 20% and 25% of their US and European counterparts (Singapore Service Sub-committee, 2002). It also shows that African companies have indicated a strong interest in the revamping and integration of their 3pl with worldwide operations.

It is common knowledge that Kenya has become the busiest container port in the world. The Kenyan Shipper's Council reported in 2003 that 75% of its home-made cargo was re-exported through Kenya. This has transformed Kenya into a transshipment logistics hub. According to the Trade and Development Council, (2002), the transport industry in Kenya comprises air transportation, sea transportation, traditional freight forwarding, and 3PL. The transport industry is the backbone of the Kenyan economy, due largely to Kenya's excellent harbor, its strategic location, and its export trade. Kenya is also a major aviation and maritime hub, and has been ranked the busiest in Africa for many years. Kenya has a leading international airport with an annual cargo handling capacity of up to 9 million tons. In 2003, Kenya handled 20.4 million twenty-foot equivalent units in marine cargo terminals and another 2.64 million tons of air cargo in air cargo terminals. In 2003 the International Airports' Council ranked Kenya number two in the handling of international cargo. In the past decade, logistics and transport have become two of the most important sectors of Kenya's economy. This study concentrated on international third party logistics though it is known that indigenous third party logistics also contributes to the economy growth. In 2000, the air and sea transport logistics sectors together constituted about 18% of Kenya's GDP (TDC, 2002).

The relaxation of freight forwarding and transportation policies in Africa following accession to the WTO has created fierce competition within the East African Region To maintain Kenya as a regional logistics centre and transport hub, the effective management of supply chain dynamics is paramount. Kenya's minister of Transport announced in 2001 the

Logistics Council's plan to implement a series of policies and recommendations from academics, industry experts, and professionals to maintain organizational performance and strengthen Kenya's transshipment and logistics hub status in the African-Pacific region.

In the policy address for 2003 and 2004, Kenya's minister of Transport further spelled out the goal of establishing Kenya as a trading and multi-model trade management and operations center. The government aims to strengthen Kenya's position as Africa's premier transportation and logistics hub by facilitating the development of the logistics center and express cargo terminal of Kenya International Airport, and by building a logistics park on Mombasa Island. The government will also upgrade the existing infrastructure to ensure a smooth flow of cargo between Kenya and mainland Africa.

Kenya is in a unique position to serve as a logistics hub for the distribution of parts and materials between manufacturers in Mombasa and overseas suppliers. The purpose of this paper is to analyze from the retailers' perspective, how factors of 3PL providers could meet the customers' needs, the best directions that they should follow and create organizational Performance in the 3PL market.

In recent years, the academic interest and publications in the area of 3PL have increased. This can be explained by the growing interest of companies to outsource more and more of their non-core activities (Selviaridis & Spring, 2007). Various facets of a 3PL topic have been covered in the previous studies; these include 3PL outsourcing process (Mello et al. 2008 and Jharkhariaa & Shankarb, 2007), drivers of outsourcing decision (Rao & Young, 1994), satisfaction and perception of customers on performance of their 3PL service providers (Power et al. 2007), customer-provider collaborative relationships (Hofer et al. 2009), types of outsourced logistic activities, evolution of 3PL and 4PL industry, and impact of using 3PL on firm performances. However, only few or no literature is available on organizational performance in indigenous third party logistic businesses in the transport industry.

Although the 3PL industry is a growing industry, many companies have been going out of business. According to Lieb (2005), this can be explained by the normal industrial evolution. However, there are several criteria regarding the selection of a 3PL provider. While various logistics designs present opportunities to reduce operation cost and increase customer services to all players in the industry, firm specific strategies that is operation cost, innovation, resilience, are the ones that uniquely contribute to distinctive performance. In 3PL organizational performance, the strategies are in terms of scope translated as depth and width of performance activities, number of service providers, and length of outsourcing relationships.

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

For the last two decades, outsourcing of logistics services has been one of the most popular logistic decisions (Knemeyer & Murphy, 2005). Firms embark on this relatively new strategy by using Third Party Logistics (3PLs) and/or Fourth Party Logistics (4PLs) as their source of logistics services instead of sourcing them internally. Abdullah, Mohamed, Othman, & Uli, (2009) argue that at the moment firms tend to outsource their manufacturing activities than how they did a decade ago.

Armstrong & Associates (2012) estimate that the global Third Party Logistics gross revenue at \$133.8 billion in 2011 was up 5.2 percent over 2010, Annual growth for the third-party logistics (3PL) market in 2013 is expected to be high of 6 percent, with much of current market activity centered around mergers and acquisitions, with many of the same underlying market fundamentals of 2012 still embraced.

A Resource Dependence Perspective (Pfeffer and Salancik, 1978) (RDP) theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links among many others organization should move through the principle of criticality and principle of scarcity.

Transaction cost economics Theory developed by Oliver Williamson (1975, 1985, 1993b) (TCE). This theory was dangerous for corporate managers because of the assumptions and logic on which it was grounded. Organizations are not mere substitutes for structuring efficient transactions when markets fail; they possess unique advantages for governing certain kinds of economic activities through a logic that is very different from that of a market. Behavioral theories will be introduced in an attempt to overcome some of the limitations associated with the economic theories. Failure of indigenous third party logistics in Kenya will mean loss of employment to locals and sustainability of the industry could also be threatened as well as attainment of Kenya's Vision 2030. Various facets of a 3PL topic have been covered in the previous

studies; these include 3PL outsourcing process (Mello et al. 2008 and Jharkhariaa & Shankarb, 2007), drivers of outsourcing decision (Rao & Young, 1994), satisfaction and perception of customers on performance of their 3PL service providers (Power et al. 2007), customer-provider collaborative relationships (Hofer et al. 2009), types of outsourced logistic activities, evolution of 3PL and 4PL industry, and impact of using 3PL on firm performances.

The limited number of available literature reveals that there is a meager research to probe organizational performance of indigenous 3PL firms in Kenya (EITayeb, Zailani and Jayaraman, 2010). At present, bulk of the 3PL services in Kenya are offered by Multinational firms as opposed to indigenous firms in the transport sector. 3PL is still a new concept in Kenya which has not been fully embraced by the indigenous 3PL firms and this has led to the purpose of this study which was to investigate the resilience on organizational performance of indigenous third party logistic businesses in the transport sector in Kenya.

### **1.3 Study objectives:**

#### **1.3.1 General Objective:**

To determine resilience and organizational performance of indigenous third party logistic businesses in the transport sector in Kenya.

#### **1.3.2 Specific objectives:**

To explore resilience and organizational Performance of Indigenous Third Party Logistic businesses in the Transport Sector in Kenya.

### **1.4 Research Hypothesis:**

H<sub>02</sub>: Resilience of Indigenous Third Party Logistic Businesses does not influence organizational Performance in the Transport Sector in Kenya.

## **2. DEFINITION OF TERMS**

### **2.1 4PL (Fouth party logistics):**

Walton (2010) described a 4PL as a company that manages logistics operations with the use of subcontractors and without running its own trucks on the contract.

#### **Innovation:**

In logistics management literature, innovation is defined as any logistics-related service that is seen as new and helpful to a particular focal audience (Flint et al., 2005). It is to provide critical customers with products and services that not only are new but also fulfill needs that competitors have neglected or not served well. Furthermore, objective include providing new ways of producing, delivering and distributing products)

#### **Logistics management:**

This is seen as that part of Supply Chain Management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements."

#### **Organizational Performance:**

Töyliet *al.* (2008) concluded that a high logistics performance is associated with efficient operations, involving overall cost efficiency and high productivity of fixed assets.

In this study performance is defined as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Bouckaert&Halligan(2008) argue that performance is neither a unitary concept nor is it unambiguous. They say that performance comprises of the relations between input, activity, effort and trust.

Performance refers to the nature and quality of an action that an organization carries out to accomplish its principal missions and functions for the generation of profit (Sink, 1991).

## 2.2 3PL (Third Party Logistics):

During these periods there have been several definitions regarding the term “3PL”, and some of them are mentioned below. According to Lieb (1992, p.34), “3PL involves the use of external companies to perform logistics functions that have traditionally been performed within the organization. The functions performed by the third party can encompass the entire logistics process or selected activities within that process”. Evangelista and Sweeney (2006, p. 56) give the following definition: “Third party logistics are activities carried out by a logistic service provider on behalf of a shipper and consisting of at least transportation.” In addition, the service offering can include other activities such as warehousing and inventory management, value added supply chain activities and information-related activities.

**Resilience** This is to recover quickly and cost-effectively from disruptions caused by natural disasters, social factors (employee strikes), medical emergencies, economic setbacks or technological failures (a software crisis)

### 2.2.1 Resource Dependence Theory (RDT):

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behavior of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Nevertheless, a theory of the consequences of this importance was not formalized until the 1970s, with the publication of *The External Control of Organizations*:

According to Resource Dependency theory, the main reason that organizations come together is to secure the resources critical to their survival and growth (Pfeffer and Leong 1977; Pfeffer and Salancik 1978). To put it succinctly, organizations require resources from their environment, which, when successfully obtained, produce power, influence, and long-term stability. Organizations possessing necessary resources are in a power position, whereas the organizations depending on others for resources are vulnerable to control. Thus, according to the theory, power and resource dependence are inversely related: organization A’s power over organization B is equal to organization B’s dependence on organization A’s resources. Emerson (1962) formulated this idea, and Pfeffer and Salancik (1978) developed it further.

Organizations depend on multidimensional resources: labor, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources which were discussed in this theory resilience are those the organization must have for organizations performance. For example, a burger outlet can't function without bread. An organization may adopt various countervailing strategies—it may associate with more suppliers, or integrate vertically or horizontally. Pfeffer and Salancik (1978) utilized the previous environmental literature to develop resource dependence theory. Resource dependence theory is based on the notion that environments are the source of scarce resources and organizations are dependent on these finite resources for survival. A lack of control over these resources thus acts to create uncertainty for firms operating in that environment. Organizations must develop ways to exploit these resources, which are also being sought by other firms, in order to ensure their own survival.

Pfeffer and Salancik determined three factors that influenced the level of dependence organizations had on particular resources. First, the overall importance of the resource to the firm was critical in determining the resource dependence of the firm. Second, the scarcity of the resource was also a factor. The more scarce a resource is, the more dependent the firm becomes. Finally, another factor influencing resource dependence is the competition between organizations for control of that resource. Together, all three of these factors act to influence the level of dependence that an organization has for a particular resource. Managers throughout the organization understand their success is tied to customer demand. Managers' careers thrive when customer demand expands. Thus customers are the ultimate resource on which companies depend. Although this seems obvious in terms of revenue, it is actually organizational incentives that make management see customers as a resource.

Hrebiniak and Joyce (1985) argued that strategic choice and environmental determinism did not have to be mutually exclusive. They reasoned, “control over scarce resources is central to the relationship between choice and determinism”. Lawless and Finch (1989) found limited support for the model developed by Hrebiniak and Joyce, stating that “parts of the model were not supported by our analysis, and that further questions ... are actually raised”. Bedeian (1990) argued that neither argument is completely accurate, as “organizational adaptation is an ongoing, multi-directional relationship in which organizations neither mechanistically react to environmental forces nor exercise unrestricted free will (strategic choice)”. Duncan (1972), employing the works of Emery and Trist (1965) and Thompson (1967), also argued that there were two main dimensions along which the environment could be measured. Duncan called these the simple-complex

dimension and the static-dynamic dimension. The simple-complex dimension measured the number of factors that were present in the environment. A simple environment consisted of a small number of key factors; a complex environment contained many different defining factors. The static-dynamic dimension of the environment was concerned primarily with the amount of change in these factors. A static environment experienced little or no change, while a dynamic environment was in a constant state of change.

Recently, resource dependence theory has been under scrutiny in several review and meta-analytic studies: Hillman *et al.* (2009); Davis and Cobb (2010); Drees & Heugens (2013); Sharif & Yeoh (2014). Which all indicate and discuss the importance of this theory in explaining the actions of organizations, by forming interlocks, alliances, joint ventures, and mergers and acquisitions, in striving to overcome dependencies and improve an organizational autonomy and legitimacy. While resource dependence theory is one of many theories of organizational studies that characterize organizational behavior, it is not a theory that explains an organization's performance per se. But still in many ways, resource dependence theory predictions are similar to those of transaction cost economics, but it also shares some aspects with institutional theory.

Resource dependence theory also inferred that a firm's strategic options were determined to a great extent by the environment. Since firms were dependent on the environment for resources, they needed to enact strategies that would allow them to acquire these resources. Therefore, the external environment had already been determined for these firms, and they experienced little strategic choice. However, those who supported the notion of managerial choice argued that some organizations were more effective than others in the same environments, thus proving that strategic choice did exist.

Within the resource dependence school, the environment was seen as the source of scarce resources that were critical to a firm's survival. It was the lack of control over these critical resources, rather than a lack of information, that gave rise to environmental uncertainty. Environments that contained high levels of resources were perceived as less hostile to the stability of organizations, whereas those with low levels of resources acted to increase the intensity of competition among firms. Accordingly, resource dependence theorists argued that in order to reduce the impact of this environmental uncertainty on organizational performance, it was necessary for organizations to develop and sustain effective relationships with their external environment.

In operationalizing the environmental uncertainty construct, researchers in the resource dependence school have utilized both perceptual and archival measures of environmental uncertainty. However, archival measures have been most commonly employed to yield an objective measure of resource hostility. A limited number of researchers have instead used perceptual scales in order to measure the level of environmental resource dependence.

In a study of the joint effects of environmental uncertainty and resource dependence, Koberg and Ungson (1987) claimed that "consistent with the argument that perceptions of organizational contingencies and not objective properties determine decision-making behavior, two perceptual measures of environment were employed. One was a measure of environmental uncertainty ... the other was a measure of environmental resource dependence". As research in this area matured, scholars increasingly have argued that several factors reacting together to determine the total amount of uncertainty a firm faced in the environment. To reflect this belief and to form a more comprehensive view of uncertainty that had been lacking in the early literature, multidimensional operationalization of uncertainty will be developed.

### **2.3 Theoretical Models:**

#### **2.3.1 Organizational Performance Measurement System Model:**

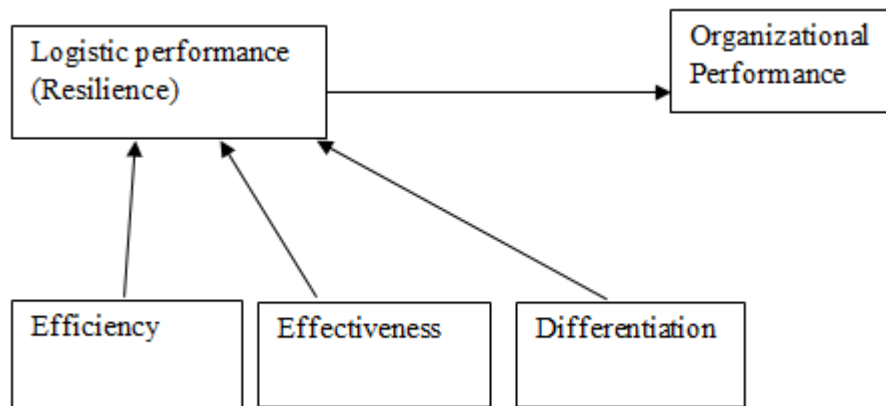
#### **2.3.2 Fugate Logistic Performance Model:**

Fugate *et al.* (2010) analyzed the relationship between logistics performance and organizational performance, stating that logistics performance is multidimensional and is a function of the resources used in logistics, according to outlined objectives and outcomes against competitors. In this context, the authors theorized that analysis of logistics performance should be based on evaluation of a set of dimensions of the activities carried out by the resilience logistic function variable, which are namely, efficiency, effectiveness and differentiation.

According to these authors, efficiency was a dimension related to the use of resources allocated to the logistic function, effectiveness can be defined as the extent to which objectives are achieved and differentiation is understood as the value that can be generated by the elements of customer service in relation to competitors. In the opinion of Fugate *et al.* (2010), the better the quality of the joint work of human resource logistics, planning and implementation of solutions to customers'

requests, the lower the level of redundancies, conflicts and customer complaints, which increases efficiency levels due to responsiveness (less time), allows lower levels of waste and invested capital, and thus increases logistics efficiency and the likelihood of meeting deadlines.

In this context, Fugate *et al.* (2010), in carrying out empirical research to analyze the interrelationships between the different variables of logistic performance and their impact on organizational dimension, outlined the following conceptual model:



Source: Fugate *et al.* (2010)

**Figure 2.1: Fugate Logistic Performance Model**

The conceptual design of the Fugate model consists of two levels of analysis. The central level, which represents the convergence of the model for analysis of the impact of resilience on organizational performance, where the author seek to obtain the final result of the investigation. This model was tested and validated with a number of randomly selected large companies. The author point out that there was a need which was significant to the relationship between organizational performance and logistics performance.

The Fugate model refutes an argument at the center of controversy over the possible trade-off between the constructs underlying performance dimensions. Some authors have reflected on the relationship between business objectives and the concepts of efficiency and effectiveness. According to these authors, when defining a direction or a goal, business leaders should opt for one dimension, since it appears that performance progress in one dimension entails a step backwards in another. Conversely, Fugate *et al.* (2010) find firms that choose to combine efficiency and effectiveness achieve better performance than their competitors who choose only one of these dimensions, which is in line with what is stated by Seldin and Olhanger (2007). This has not been the case of indigenous third party logistics businesses which was a condition to consider the dimensions of performance as antagonistic, and must also provide value added service to its customers to differentiate companies in today's market. But instead be able to achieve both simultaneously in excellence in third party logistics which is associated with better organizational performance.

### 2.3.3 Resilience:

A good organizational structure of achieves organizational effectiveness in 3PL service providers (Elmuti, 2002). All of the 3PL service providers in this study had specific goals with measurable outcomes. The surveyed organizations were asked to identify specific goals or projected benefits and to indicate both the projected and actual percentages of improvement achieved as a result of supply chain management. The structure-output relationship is developed in this research model to identify the relationship between 3PL service providers and their supply chain partners. The relationship has three elements: cycle time, customer service, and reputation (Beamon, 1999; Thomas, 1999; Mentzer *et al.*, 2000; Carr and Person, 1999; Elmuti, 2002; Lai *et al.*, 2004; Reiner, 2005). Thus, the following was hypothesized.

*Hypothesis H<sub>3</sub>: Resilience significantly influence Organizational Performance in Indigenous Third Party Logistics in Kenya.*

Cycle Time and Organizational Performance is the minimization of time to market it is necessary for a number of reasons (Kessler and Chakrabarti, 1996; Stalk and Hunt, 1990). A firm that is slow to market with a particular generation of technology is unlikely to fully amortize the costs of development before that generation becomes obsolete. This is

especially true of dynamic industries such as electronics, in which the life cycles of products such as personal computers and Semiconductors can be as short as twelve (12) months. Companies with shorter cycle times are more likely to be first to introduce products that embody new technologies. As a result they are better positioned to capture first mover advantages (Schilling and Hill, 1998). Companies with short cycle times in 3PL can continually upgrade their products and incorporate state-of-the-art technology when it becomes available. This enables them to better serve consumer needs, outrun their slower competitors, and generate brand loyalty. It also enables them to offer a wider range of new products to better serve market niches (Schilling and Hill, 1998).

Gupta and Wilemon,(1990) identified several contributing factors to the need for an accelerated development of new products: increased competition, a rapid rate of technological change, consumer demand for new products, shortened product life cycle, and the desire to be first to market. Most executives today recognize that 3PL offers the benefits of different perspectives and skills, and that a functional diversity toward other companies can improve the quality of products that are developed and reduce the cycle time that is needed to launch new products or services (McDougal and Smith, 1999). A reduced cycle time, in turn, contributes either directly or indirectly to the improvement of a firm's business performance.

Ittner and Larcker,(1997) examined the performance implications of product development cycle time using data from a survey that covered two industries (automobiles and computers) in four countries (Canada, Germany, Japan, and the United States) in which 1,991 consulting company members participated. Although a faster cycle time alone was not found to increase a firm's performance, faster product development cycles when combined with certain organizational practices were associated with a firm's perceived overall performance. The reduction of cycle time or the increase in speed to market has become more important for companies who wish to increase their chances of organizational performance in third party logistics businesses, and especially in logistics outsourcing. Thus, the better the organizational effectiveness of a 3PL service provider, the shorter the product or service cycle time.

Customer Service and Organizational Performance is a strategic weapon in the attraction and retention of customers, and has become one of the most significant factors in the success of manufacturers and service providers (Gale, 1994; Zeithaml, 1988, Zeithaml et al., 1996, Woodruff, 1997; Parasuraman, 1997). Customer service is frequently cited as an important objective in supply chain management (SCM). Ellram (1990) described SCM as a means of maximizing the efficient use of resources to achieve customer service goals in a supply chain. Cooper and Ellram (1993) suggested that SCM facilitates the creation of competitive advantage and greater profitability for the channel through the co-ordination of attention to costs, the improvement of customer service, and the reduction of inventories.

The objectives of SCM include the reduction of operation cost and the maintenance or improvement of specific levels of customer service. Although customer service was used consistently to describe the objective of SCM, little attention has been paid to the exact role of customer service in a supply chain context. Customer service is also an operational function or outcome that contributes to the ultimate goal of customer value and satisfaction. If the service that was provided is perceived as the delivery of values that are important to the customer, then the ultimate goal of customer satisfaction and differential advantage may be achieved.

In logistics and SCM, customer service was described as an organizational process or a set of activities within a firm or among supply chain partners. It focuses on the facilitation of customer interfacing: the delivery of products, the fulfillment of customer orders and the communication of information to customers to achieve their satisfaction. The major route to the securing of a competitive niche is through customer satisfaction. Without this concept, no business can survive, especially in today's highly competitive market. The determination of customer needs first, and the development and marketing of a product that satisfies that need are essential for successful organizations. The building of continuous, long-term relationships with customers should be the strategic basis for an organization (Selladurai, 2002). Thus, the better the organizational effectiveness of a 3PL service provider, the better the customer services that it provides for its partners.

The reputation of an organization are intangible assets that enhance the organizational effectiveness of 3PL service providers. Although reputation was gaining an ever-higher level of attention from researchers, as shown by the recent launch of a new topic-specific journal the Corporate Reputation Review, this construct has eluded detailed measurement, which is a common phenomenon for organizational-level variables (Brown and Perry, 1994), and is often operationalized uni-dimensionally, even though it is acknowledged to be multi-dimensional (Carter and Dukerich, 1998; Berkson et al., 1999).



Different definitions of reputation have evolved over time. Fombrun and Shanley (1990) claimed reputation to be the outcome of information that stakeholders accumulate about a firm through different signals: market signals (with respect to market performance and dividend policy); accounting signals (accounting profitability and risk); institutional signals (institutional ownership, social responsibility, media visibility, and firm size) and strategy signals (differentiation and diversification). Weigelt and Camerer (1988) viewed reputation as a set of attributes that is ascribed to a firm that can be inferred from its past actions and that produces rent. Reputation has also been defined as the socially constructed outcome of a legitimate process (for example, certification contests) (Rao, 1994).

Dutton *et al.* (1994) construed “reputation” and “identity” as separate appraisals of the same target. Specifically, “identity” relates to the attributions that are made to an organization by outsiders. Organizations specifically concern themselves with “reputation,” and associate an outsiders view of the firm with a candidate’s tendency to accept a job offer. There is clearly an important link between reputation and identity.

To further illustrate that reputation was multi-dimensional, the work of Carter and Deephouse is used as a reference (1999). Unintentionally, Carter and Deep house’s historical case study of Wal-Mart provides evidence to suggest that the multi-dimensionality of reputation precludes its conceptualization as a bipolar, uni-dimensional construct. Carter and Deephouse examined Wal-Mart’s management of its negative and positive reputation among suppliers and its positive reputation among consumers.

The main finding of their investigation suggested that reputation for an organization can be simultaneously positive and negative, which rules out the possibility of a single dimension or perspective (Lai et al., 2002; Zhao et al., 2002). Wal-Mart’s reputation for being “tough” on suppliers is seen as being negative among suppliers and positive among some consumers, whereas their reputation for being “good” to consumers is generally held in positive regard (Carter and Deephouse, 1999). This observation demonstrates that a single reputation domain (supplier relations) differs by perception, and that there is more than one reputation domain (consumer treatment). There are many ramifications of context, perspective, and dimensionality. An organization’s reputation for the production of high-quality products may be the weightiest dimension in a consumer’s decision, whereas an organization’s perceived reputation for profitability may be the weightiest dimension in an investment decision. Clearly, it is reasonable to suggest that positive goodwill and an improved reputation for logistics outsourcing can achieve improved organizational performance in logistics outsourcing. Thus, the better the organizational effectiveness of a 3PL service provider, the better its reputation and goodwill.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction:**

This chapter describes the methodology that was used in undertaking the study. The chapter explains the research design adopted. Based on the conceptual framework and variables developed in Chapter two, this chapter covered the research design and research methodology used to test the variables. The chapter addressed issues related to research design, the population, the type of data collected, data collection instrument, data collection procedure, pilot test, validity and reliability tests of the instrument used and the how the data analysis was carried out.

#### **3.2 Research Design:**

In this study, descriptive survey design will be used. The research design was the plan, structure of investigation conceived so as to obtain answers to research hypothesis and to control variance (Kerlinger & Lee, 2000; Kothari, 2004; and Wiersma & Jurs, 2009). Sekaran (2003) highlighted that a research design can either be exploratory, descriptive, experimental or hypothesis testing. According to Neuman (2000), descriptive survey design involves large numbers of persons, and describes population characteristics by the selection of unbiased sample.

It involves using questionnaires and sometimes interview tests, and generalizing the results of the sample to the population from which was drawn. This study was concerned about associations or relationships between variables therefore, descriptive survey design was applied because it was found to be flexible enough to provide opportunity for considering different aspects of a problem under study (Creswell, 2003).

The study took a positivism philosophy as used in scientific methods to collect data using quantitative approach through questionnaires to gather reliable data. Saunders, Lewis and Thornhill (2006) defined research philosophy as development of knowledge and nature of that knowledge based on assumptions about ones views of the world which influences the way research was conducted.

Two main research philosophies were positivism and phenomenology (Benz and Newman, 1998). According to positivism philosophy, reality was stable, observable and can be measured. Knowledge is obtained using the scientific method which is objective and measurable. To prove that a phenomenon exists, one has to collect data scientifically and what that cannot be tested empirically cannot be regarded as proven. Positivism has no value judgments, only statements which can be tested scientifically. To prove the validity of a statement, data must be collected (for example using experiments, surveys) using methods that are agreed on by the scientific community. Also, the research when repeated should yield the similar results.

On the other hand, phenomenology philosophy focuses on the processes and experiences one goes through. Literally, phenomenology was the study of “phenomena” or the things we experience and the ways we experience such things. Experience is a complex concept and not directly observable by an external observer. However, ‘intersubjectivity’ is often used as a mechanism for understanding how people give meaning or interpret their experiences (Benz & Newman, 1998). Generally, the underlying philosophy of qualitative research was phenomenology while the underlying philosophy of quantitative research is positivism. Positivism philosophy was justified by the stability and measurable nature of their information gathered via questionnaire. Contrary to the phenomenology approach, the study's sample was scientifically selected to ensure reliability, non-biasness and objectiveness of the collected data. It allowed use of statistical analysis like factor analysis and cluster analysis which was not possible for phenomenology approach where only descriptive analysis can be carried out.

### **3.3 Target Population:**

Target population in statistics is the specific population about which information was desired. According to Kothari (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated (Mugenda and Mugenda, 1999). The target population of the study is composed of all the 181 registered indigenous firms in the Third Party Logistics Businesses in Kenya. The respondents were drawn from operations managers employees in the 181 indigenous Third Party Logistics registered in Kenya Transport Association. Mugenda and Mugenda (1999), explain that the target population has some observable characteristics, to which the researcher intend to generalize the results of the study.

### **3.4 Census enquiry:**

Owing to the small nature of the population i.e. the 181 indigenous third party logistics businesses, the study adopted the census enquiry approach to get the samples following Kothari and Garg (2014) who suggested that if the target population was not so large, census survey may provide better results than sampling surveys. The unit of observation in this study was the 181 indigenous third party logistics companies who are registered by the Kenya Transport Association (KTA, 2012) and unit of analysis was the operation managers. These are the ones who could realistically be included in the study because they are known from the KTA list.

Furthermore, it was assumed that in such inquiry, no element of chance was left and highest level of accuracy was obtained. The use of census approach thus eliminates the fears of not achieving external validity that was normally associated with sampling since the entire population was used.

### **3.5 Instruments of Data Collection:**

In this study, the instruments which were used for data collection were questionnaires for primary data. Literature review from existing sources was the major instrument for secondary data. (Anderson & Shaw, 1999). Questionnaire is a method of data collection in which respondents provide written answers to written questions (Gillham, 2008; and Leary, 2001).

Use of questionnaires in this study enabled coordination of data collection and guidance on the required information. The questions therein were open ended question on the questionnaire as suggested by Kothari and Garg(2014) this was because it provides a complete picture of respondent’s feelings and attitude which was critical for this particular study which also looks at the perception of different levels of management, closed questions will also be used using 5 likert scale this will assure collection of all the available data not ignoring any important information from the respondents while at the same time making it possible to analyze through restricted likert scale. The open ended questions were designed to capture opinions of the respondents with regards to the variables under investigation. The questionnaires were mailed through post or hand delivered where appropriate to the respondents who were expected to read, understand and fill appropriately. Once administered, the questionnaires was collected, coded, checked for completeness and consistency. Many scholars have used the questionnaire on collection of data on studies in transport industry like (Mello et al. 2008 and Jharkhariaa &

Shankarb, 2007), drivers of outsourcing decision (Rao & Young, 1994) and in other industries like tourism industry (Ragui 2013) success of indigenous tourism industry in Kenya.

### 3.6 Data Collection Procedure:

The study took pilot study which was a small-scale research project that collects data from respondents similar to those which were used in the full study (Zikmund et al., 2010). It will serve as a guide for a larger study by examining specific aspects of the research to ensure increased response rates, reduced missing data and obtaining more valid responses (Hair et al. 1998; and Schwab, 2005). The pilot study involved a randomly selected sample of 18 indigenous third party logistics respondents. This was 10% of the sample size based on the rule of thumb that 1 to 10 percent of the sample should constitute the pilot test (Cooper & Schilder, 2008; Kothari & Garg, 2014).

The same was not included in the final study following ASA (1997) to avoid survey fatigue. The reliability of an instrument refers to its ability to produce consistent and stable measurements whereas validity indicates the instrument measures what it purports to measure (Mugenda & Mugenda, 2003). The most common reliability coefficient was the Cronbach's alpha which estimates internal consistency by determining how all items on a test relates to all other items and to the total test i.e. the internal coherence of data. The reliability was expressed as a coefficient between 0 and 1.00. Cronbach's alpha value was therefore widely used to verify the reliability of a construct. Cronbach's Coefficient Alpha test was applied in this study to validate the measuring instrument to determine its portability, structure and reliability. The higher the coefficient, the more reliable was the test. Factor analysis was also carried to remove any redundant item from the questionnaire. Factor analysis as defined by Gall et al. (2007) was a statistical procedure for reducing a set of measured variables to smaller number by combining those that are moderately or highly correlated with each other.

Confirmatory factor analysis as Zikmund *et al.* (2010) and Hair et al. (2010) assert was more reliable when there was a strong theoretical expectations on the factor structure before carrying out the analysis. All items scoring less than 0.5 which is the minimum requirement for inclusion of variables into the final model will be dropped from further analysis (Hair et al., 2010; Kothari, 2004). The data collecting instrument was amended after the pilot study to reflect the corrections recommended by the respondents and supervisors who have knowledge in this area. The final version of the questionnaire (appendix 1) was sent to the 18 sampled firms using their email addresses on the KTA register.

## 4. DATA PROCESSING AND ANALYSIS

Data analysis is a practice in which raw data was ordered and organized so that useful information can be extracted from it (Saunders et al. 2009). The primary data obtained from the questionnaires were checked for omissions, legibility and consistency before being coded for analysis. All qualitative responses were analyzed using content analysis where the researcher obtained detailed information about the phenomenon studied and establish relationships from the information gathered whereas descriptive of means and the standard deviations and inferential statistics as Analysis of Variance (ANOVA) also referred to as F-test was used to test the significance of the model, regression analysis was used for the quantitative variables through application of inductive reasoning (Creswell, 2003). This was usually applied when one dependent variable was presumed to be a function of more than one independent variables (Neuman, 2000).

Neuman (2009) indicates the main advantage of SPSS as including many ways to manipulate quantitative data and containing most statistical measures. Normality test was carried out on the dependent variable (organizational performance in indigenous third party logistics businesses) and the residuals. This tested the normality of the sample to ensure there was a normal distribution on the same. Pearson's Coefficient Correlation analysis was used to examine the type and extent of the relationships of the independent variables:- cost, innovation, resilience, quality service, and relationship management – to the dependent variable –organizational performance in indigenous third party logistics businesses.

Kvasova (2012) in the study on Socio54 Demographic Determinants of Eco-Friendly retailers Attitudes and Behavior conducted in Cyprus used ANOVA successfully to test significance of the model. The main statistical model that was used for this study was the multiple linear regression model:

$$Y = \alpha + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + \hat{\epsilon}$$

Where: Y = organizational performance;

$\chi_1$  = the Y intercept;

$\chi_3$  = resilience

e = error term which is assumed to be normal in distribution with mean zero and variance ( $\alpha$ ).

To confirm the actual implications of the ensuing data, the researcher performed influential analysis. For this study, the general objective was to determine critical success factors and organization performance in indigenous Third Party Logistic businesses in Kenya. On this purpose, the researcher first came out a Correlation analysis it gives the strength of the relationship between variables. In this study, Pearson product moment correlation coefficient (r) was used to establish the relationship between the independent variables. The findings on table 4.7 reveals that there was no significant relationship between the independent variables since all the p-values were greater than 0.01. The finding also confirmed that there was no problem of Multi-collinearity among the variables since all the r values off diagonal were far much less than 0.8 as suggested by Tabachnick and Fidel (2001).

**Table 4.1 Correlation Analysis among Independent Variables**

	Resilience
Pearson Correlation	1
Resilience Sig. (2-tailed)	
N	146

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

\**. Correlation is significant at the 0.05 level (2-tailed).*

**Homoscedasticity Test:**

To test for homoscedasticity, Levene test (1960) for equality of variance was computed using one way Anova procedure. This test was used to assess Variance homogeneity, which was a precondition for parametric tests such as the t-test and ANOVA. If the Levene test was statistically significant, the hypothesis of homogeneous variances should be rejected. The results therefore in table 4.13 indicated that the Levene statistic value and it was further established that the Levene statistic was significant (p-value>0.03). This therefore implies that the null hypothesis were accepted and thus the variances are said to be homogeneous. Given that the assumption of homogeneity of variance was not.

**Table 4.2 Homoscedasticity**

	Levene Statistic	3.967
Resilience	Levene Statistic	4.537
	df1	1
	df2	145
	Sig.	0.220

**Regression Analysis Resilience:**

**Objective Four: To explore resilience and organizational Performance of Indigenous Third Party Logistic Businesses in the Transport Sector in Kenya.** The objective was tested using the hypothesis which states that;  $H_4$ : *resilience of Indigenous Third Party Logistic Businesses does not influence organizational Performance in the Transport Sector in Kenya.*

Table 4.29 shows the regression findings between resilience and organization performance. Confidence level of 95% will be used and thus the significance or alpha level of 5%. The R coefficient of 0.550 indicated that resilience as the independent factor had a positive correlation of 55% with the dependent variable organization performance of indigenous third party logistic businesses in the transport industry. The R square also referred to coefficient of determination of 0.303 indicates that the model can explain only 30.3% of performance of indigenous third party logistic business in the transport industry. This shows that resilience as the independent variable of this study is a significant predictor of performance of indigenous third party logistic business in the transport industry.

**Table 4.3: Model Summary – Goodness of fit for Resilience**

	Model	R	R Square	Adjusted Square	RStd. Error	Durbin Watson
Resilience	4	.550 <sup>a</sup>	.303	-.007	2.40298	2.203
Dependant variable: Organization Performance						

**Analysis of Variance:**

Table 4.30 shows the analysis of variance - ANOVA. Regression analysis was carried out to test the hypotheses stated earlier: 1) Null Hypothesis (Ho): resilience of Indigenous Third Party Logistic Businesses does not influence organizational Performance in the Transport Sector in Kenya. P-value for model four was 0.00 which was less than the set level of significance of 0.05 thus the null hypothesis was rejected and concluded that a relationship between the dependent variable organization performance and the predictor variable relationship management, is significant at 0.05%. This means that relationship management was significant in performance of indigenous third party logistic businesses in the transport industry in Kenya.

**Table 4.4: Analysis of Variance – ANOVA Resilience**

Model		Sum of Squares	Df	Mean Square	F	Sig.
4	Regression	.064	1	.064	120.011	.000 <sup>b</sup>
	Residual	831.499	144	5.774		
	Total	831.564	145			
a. Dependent Variable: Organization Performance of (Y)						
P=redictor 4 Resilience						

From the coefficient table 4.13 t- test was also used to test the relationship between the predictor variable resilience and organization performance and there was significance relationship between the two variables with p-value= 0.000 < 0.05 for the model. The regression equations between resilience and organization performance model can be expressed as; Y=22.563+ 0.941. The model indicate that a unit change on resilience as a combined variable causes 0.091 unit change in the organization performance of indigenous third party logistic businesses in the transport industry.

**Table 4.5**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	22.563	3.016		27.481	.000		
	Resilience	0.941	.650	.120	11.447	.000	1.000	1.000
a. Dependent Variable: Organization Performance								

The level of significance,  $\alpha$ , is 0.05. From Table 4.31, the p-value is 0.000. From the linear regression analysis it was conclusively decided that there was significant relationship between quality service and organization performance, hence the null hypothesis was rejected (resilience of Indigenous Third Party Logistic Businesses does not influence organization Performance in the Transport Sector in Kenya. Resilience was therefore important to the performance of indigenous third party logistics businesses in the transport industry. This corroborates with the findings Ittner and Larcker,(1997) examined the performance implications of product development cycle time using data from a survey that covered two industries (automobiles and computers) in four countries (Canada, Germany, Japan, and the United States) in which 1,991 consulting company members participated. Although a faster cycle time alone was not found to increases a firm’s performance, faster product development cycles when combined with certain organizational practices were associated with a firm’s perceived overall performance. The reduction of cycle time or the increase in speed to market has become more important for companies who wish to increase their chances of organizational performance in third party logistics businesses, and especially in logistics outsourcing. Thus, the better the organizational effectiveness of a 3PL service provider, the shorter the product or service cycle time.

## **5. CONCLUSIONS, RECOMMENDATIONS AND FUTURE RESEARCH**

### **5.1 Introduction:**

This chapter presents the summary of the study which sought to investigate the critical success factors and organization performance in indigenous third party logistics businesses in Kenya. The study was guided by specific objective and hypothes. This chapter therefore presents the summary of the research work, conclusions drawn from the study, recommendations and areas of further research in relation to the data analysis.

### **5.2 Summary of Findings:**

From the theoretical information garnered organization performance is meant to convert data external sources into information and to communicate that information, in an appropriate form, to managers at all levels in all functions to enable them to make timely and effective decisions for planning, directing and controlling the activities for which they are responsible. The study employed descriptive research design. The target population of the study was composed of all the 181 registered indigenous firms in the Third Party Logistics Businesses in Kenya. The respondents were drawn from operations managers employees in the 181 indigenous Third Party Logistics registered in Kenya Transport Association. Mugenda and Mugenda (1999) Owing to the small nature of the population i.e. the 181 indigenous third party logistics businesses, the study adopted the census enquiry approach to get the samples following Kothari and Garg (2014) who suggested that if the target population is not so large, census survey may provide better results than sampling surveys. A questionnaire containing semi structured questions and a likert scale was used for collecting data. Out of 181 respondents given the questionnaire 146 employees which was 79.86%. responded. This was considered adequate, as espoused by Mugenda and mugenda (2003).

Pilot testing was done using a sample of 18 questionnaires where reliability, validity and factor analysis was performed. This helped improve the research instrument greatly cronbach was used whose cut- off value of 0.70 while discarding the factor loadings that were less than 0.40. Responses for the predictor variable were presented in descriptive statistics. Further multiple regression which involved analysis of variance, coefficients model summary and the findings from the analysis used to test the null hypotheses for each objective. Correlation analysis to test relationship between independent variables was done using Pearson product moment correlation coefficient ( $r$ 's). In the study there was no problem of multi-collinearity among the variables since all the  $r$  values were less 0.8.

### **5.3 Conclusion:**

#### **Resilience:**

The study sought to determine critical success factors and organization performance in indigenous third party logistic businesses in the transport industry in Kenya. This section highlights the main conclusions on the operation cost, towards organization performance in indigenous third party logistic businesses in the transport industry in Kenya.

Clearly, it is reasonable to suggest that resilience in high order rate service, efficient and reliable warehouse operations and an improved value added services reputation for logistics outsourcing can achieve improved organizational performance in logistics outsourcing. Customer Service and Organizational Performance is a strategic weapon in the attraction and retention of customers, and has become one of the most significant factors in the success of manufacturers and service providers. In addition the findings show the positive aspect of quality efficient service, competition enhancement service, minimization of service failure probabilities and provision of business operational consultancy service of the firms on their indigenous logistics businesses. Being a service industry, organization performance can only emerge from resilience by the indigenous third party logistics towards the customers because service is an intangible product. Most executives today recognize that 3PL offers the benefits of different perspectives and skills, and that a functional diversity toward other companies can improve the quality of products that are developed and reduce the cycle time that is needed to launch new products or services (McDougal and Smith, 1999).

### **5.4 Recommendations:**

In view of the findings as well as the conclusion deduced from the study some recommendations were made. This study sought to was to determine critical success factors and organization performance in indigenous third party logistics industry in Kenya. The study justifies that, a transport business owned by indigenous Kenyan that:

Most executives today should recognize that 3PL offers the benefits of different perspectives and skills, and that a functional diversity toward other companies can improve the quality of products that are developed and reduce the cycle time that is needed to launch new products or services (McDougal and Smith, 1999). Two of the factors that are proposed as critical to a customer service-oriented strategy for firms is “recognizing the importance of intangibles” and “establishing relational markets.” 3PL service providers, who once thought that providing a good, reliable product was the key to success, have found that the customer wants more. One participant in the aforementioned focus group interviews indicated that the reliability of the product was not a factor because “you can throw rocks at the box and it will still run” (Can, 1995). However, the same customer was very concerned about the vendor’s attitude toward helping the customer solve problems and the communication of advancements in new technology to the customer.

Finally the study would recommend use of the blue ocean strategies by the indigenous third party logistic businesses. This will involve going to untapped market space, creating demand, and opportunity for highly profitable growth. This will make competition irrelevant and exceed the existing boundaries where the new entrants will have confidence as they have no previous experience with any other service provider in Kenya. Organizations must also understand the complex interactions between various business processes, and should focus on an integrative approach to the coordination of product development processes and market research, planning and resource allocation, and strategy formulation and implementation

### **5.5 Areas for Further Study:**

The productivity of service providers in business processes is enhanced through incremental improvements in the quality of 3PL services. Using information technology (IT) and knowledge management to enhance productivity will be the wave of the future (Elmuti, 2002). The management of new business processes means the development of new products concurrently and the utilization of the organization’s resources and product development processes to implement this strategy.

Although a faster cycle time alone was not found to increase a firm’s performance, faster product development cycles when combined with certain organizational practices were associated with a firm’s perceived overall performance. The reduction of cycle time or the increase in speed to market has become more important for companies who wish to increase their chances of organizational performance in third party logistics businesses, and especially in logistics outsourcing.

Resilience in this study seem to be positive as it increases but in most cases it is vice versa further research is to be done on the variable which can cause a company’s downfall as it decreases therefore it might be negative in performance relationship.

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