



INFLUENCE OF TRANSPORT LOGISTICS SERVICES OUTSOURCING ON PERFORMANCE OF PURCHASING FUNCTIONS OF NZOIA SUGAR COMPANY

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ABSTRACT

The purpose of this study was to examine the relationship between transport logistics Services outsourcing and performance of purchasing functions of Nzoia Sugar Company. The study was guided by Transaction Cost theory. The study adopted a descriptive research design. The target population was made up of procurement management staff, stores and employees of procurement department of Nzoia Sugar Company making a total of 54 respondents. Census was used to the entire 54 procurement officers. Structured questionnaires were used to collect data. Cronbach coefficient alpha was used to test for reliability. Both descriptive and inferential statistics were used in analyzing the data. Data was then presented using mainly tables. The study established that transport logistic outsourcing had a significant positive influence on the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya. The study concluded that transport logistic outsourcing play significant positive influence on the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya. From the study findings, the study recommended Implementation of procurement outsourcing in operations of Sugar manufacturing companies. This is because of the benefits that can be realized if fully implementation of sugar cane to factories and sugar to market.

Key Words: Transport Logistics, Outsourcing, Nzoia Sugar Company

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INTRODUCTION

The impact of procurement is growing lately at a faster rate in terms of both decision-making and strategic prominence (Greaver, 2009). The management of procurement in particular and the entire purchasing function in general has emerged from being sets of functional skills to being recognized as a driving corporate business philosophy – a profit creation centre, rather than simply a cost saving function (Monczka, Giunipero & Patterson, 2015).

While outsourcing can offer procurement departments the potential to save money and improve business effectiveness (Domberger, 2008; Greaver, 2009), there are many lessons to be learned from those with outsourcing experience, with as many negative outsourcing stories as positive ones. Procurement departments typically spend twice as much with their suppliers as they do on staff costs. As a result, reducing supplier spend can have a proportionally bigger effect on earnings than the same percentage reduction in staff or staff costs (Skipworth, Delbufalo & Mena, 2020). This effect is often further amplified as supplier savings have a direct earnings benefits whereas staff costs carry other overheads and so do not have a direct one-to-one effect.

In Finland, Logistics is on a good level, but according to the logistics surveys, differences across the country continue to grow. The logistical situation in Southern Finland is better than elsewhere in the country. Western Finland is at the second place, then Northern Finland, and the last is Eastern Finland. This situation is existing because of a great difference between the transport infrastructures and population distribution. Also, there is a large distance between the south and north of Finland, (Solakivi, Ojala, Malmsten & Viherlehto, 2012).

Obstacles such as poor choices of sourcing partners, inadequate planning and training/skills needed to manage outsourcing activities and poor organizational communication have also been identified as impacting the success of outsourcing projects. However, the performance of logistic

industry in Kenya has been wanting. For instance, the World Bank's Logistics Performance Index showed that among the East African countries, Tanzania ranked the highest at position 88 while Kenya dropped in ranking to position 122 in 2013 (Langat, 2013).

The East Africa Logistics Performance Survey 2014 ranked Kenya's logistics sector as one of the two most inefficient in the region. The survey conducted by the Shippers Council of Kenya ranks Rwanda in top position, followed by Uganda and Tanzania. A study conducted by Mwangi (2016) focusing on logistic firms in Nairobi county found that there was low rate increase of profits and low rate of reduction in costs among these firms in the last five years (2011 to 2015) and this was linked in part to poor procurement practices.

In Kenya Public procurement has undergone tremendous changes reforms 1960 to date, with the enactment of key legislations, regulations and policies. However, a lot of concern has been raised by members of public and development partners on the lack of strategic focus in procurement plans, strategic policies and including lack of adherence the currently laid policies. Major scandals in Kenya, like in other countries, revolve around ineffective procurement procedures which could have been avoided by incorporating strategic policies in the public procurement cycle (Amemba, Nyaboke & Mburu, 2013).

The process of outsourcing in public entities of Kenya county governments is guided by the public procurement act 2005 and also its anchored in the new constitution 2010 under article 227 with public procurement oversight authority (PPOA) and Public Procurement Complaints, Review and Appeals Board (PPCRAB) as monitory and oversight bodies. According to Commission for Revenue Allocation Kenya (CRA) fiscal report (CRA, 2014), county governments account for 34% of the total budget for shareable revenue allocation which translates to an amount of Kshs 231 billion.

Statement of the Problem

Purchasing functions in many organizations in Kenya are facing tough times that need businesses to focus absolutely on profit, cash flow and eliminating unpredictable events from a declining demand profile (Wanyonyi & Muturi, 2015). A study by the Public Procurement Authority (PPOA) (2013) revealed that most of the tendered products/services are being brought with a mark-up of 60% on the market price hindering the supply chain performance due to high costs. Nzoia Sugar Company Limited does not manage and control their inventory holding, resulting in under stocking of the cane causing the companies to stay off production and stock outs of the sugar thereby resulting to poor performance of the procurement function (Mukopi & Iravo, 2015). It is true that our cost of production is high and there are quite a number of drivers that make this cost this high. One of which is cost of power and the other is the technology. There is various cost saving mechanisms that perhaps we have not exploited such as procurement outsourcing. While this strategy looks quite promising, it is surprising to find that more than one-fourth of outsourcing deals fail in the first year. Nzoia Sugar Company despite outsourcing efforts in a number of business processes has still remained uncompetitive. The business has not declared any increases in its balance sheet as a result of outsourcing. The company turnaround strategy involved activities such as outsourcing but not much financial gains or operational efficiencies has been perceived to contribute to the performance of the purchasing department. According to Kiongera (2014) on the effect of logistic outsourcing on performance of sugar manufacturing firms in Western Kenya, they found out that those sugar manufacturers that handed over their logistics functions to third party logistics (3PL) service providers in order to concentrate on their core competencies experienced improved organizational performance. In addition, Kirui (2011) concluded in his study that outsourcing of non-core logistics activities is triggered by the need to eliminate duplication of

roles, efforts, and the dysfunction existing within the organization. On other hand, Chanzu (2012) concluded that outsourcing is most prevalent in departments like human resource, finance, and information technology. Further, Kimaru (2014) did a study on outsourcing and operational performance of the Kenya national police service. Oyugi (2010) conducted a study on the effects of outsourcing on corporate performance at British American Tobacco Kenya Limited. However, despite its importance in performance of purchasing functions of Nzoia Sugar Company, there was no empirical evidence on how transport logistics services outsourcing affected procurement function performance.

Research Objectives

The objective of this study was to examine the influence of transport logistics Services outsourcing on performance of purchasing functions of Nzoia Sugar Company

The study was guided by the following research hypothesis:

- **H₀:** There is no significant influence of transport logistics Services outsourcing on performance of purchasing functions of Nzoia Sugar Company

LITERATURE REVIEW

Transaction Cost Theory

The transactional cost theory was developed in 1979 by Oliver Williamson while working on concepts that were first developed by Ronald Coase (Amdany & Kwasira, 2016). The theory was first developed for accounting purposes but has been expanded to other fields. The basis of the transactional cost theory is the concept of transactional cost. A transactional cost has been defined as the cost incurred in making an economic exchange of some sort or the cost of participating in the market. This cost is divided into three components; search and information costs, bargaining costs, and policing and enforcement costs (Njeru & Ngugi, 2014).

The search and information costs relates to the costs of examining on whether the required goods and services availability in the market as well as their prices. On the other hand, the bargaining costs involve the costs incurred in reaching an agreement between the seller and buyer such as legal costs of drawing contracts. Finally, the policing and enforcement costs are costs of ensuring that the terms of the contract are adhered to by both parties (Driscoll, Halliday, & Stock, 2010).

The theory indicates that firms seek to minimize transactional costs of individual transactions that would take place between a buyer and seller in an open market. The theory seeks to explain the context in which it is beneficial to undertake a particular process within the firm and circumstances making it ideal to outsource a given process to outside firms (Maami, 2011). The theory of transaction cost economics also examines the boundaries between what is better performed within the firm and what should be outsourced.

Within the context of transactional cost theory, procurement occurs as a result of need to acquire

services and goods from external suppliers in the context that it is not economically viable to produce those goods in house. However, in the procurement of the services from external suppliers it is in the interest of the energy sector parastatals to reduce the transactional costs associated with the procurement. The transactional cost theory is critical in context of operational performance and efficiency (Cuypers, Hennart, Silverman & Ertug, 2021)

The transactional cost theory indicates that firms should endeavor to produce the goods through external suppliers in contexts where they it is not viable to produce them in house (Rindfleisch, 2019). This enables the energy sector parastatals to save on the lead times of procuring critical services and equipment that are required for the work to progress. The services procured from outside the energy sector parastatals were also likely to be of higher quality especially where the organizations lack competent in house capacity.

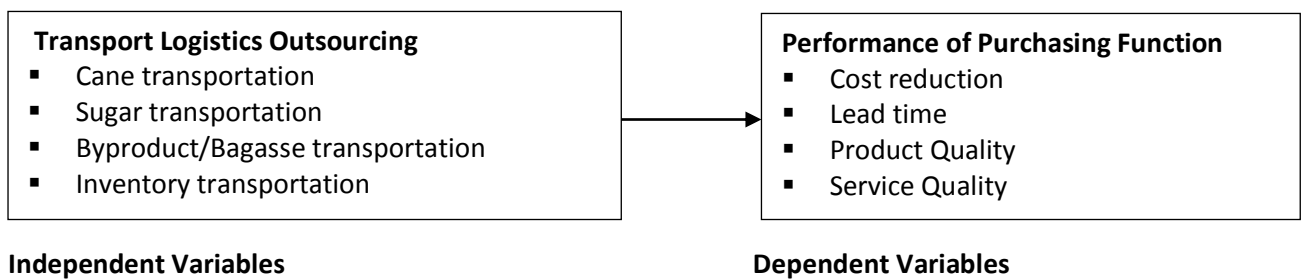


Figure 1: Conceptual Framework

Empirical Literature

Logistics outsourcing involves a relationship between a company and an LSP (Logistic Service Provider) which, compared with basic logistics services, has more customized offerings, encompasses a broad number of service activities, is characterized by a long-term orientation, and, thus, is rather strategic nature (Gotzamani, Longinidis & Vouzas, 2010).

Logistics is an emerging business area in many countries. Despite the growth in the outsourcing sector, Jiang and Qureshi (2006), point out that the

results of logistics outsourcing is still vague and an unexplained puzzle hence the basis of this study. The core business of large manufacturing firms is basically to manufacture though they still need to procure materials for production, warehouse, and manage inventory and transports manufactured products to the end users. In the researchers view, all this logistics functions are non-core and can be outsourced so that large manufacturing firms are left to handle their core function which is manufacturing (Wang, Guo & Song, 2021).

The outsourcing of logistics functions has become the obvious choice with companies eyeing for cost reduction and value enhancement while distributing and transporting products. As a result, outsourcing all or part of logistics function in a logistical supply chain to logistics service providers (LSPs) has now become the norm across the industry (Aktas, Ulengin & Onsel, 2011). As per Muller (1991), an improvement in the delivery process, resulting from the outsourcing process, can also contribute towards competitive advantages, as contributed by the product. Further, he observes that logistics outsourcing has also been instrumental in turn around cases in many companies, wherein shippers incurred loss; hence it has taken its place in strategic boardroom agendas. Many managers view outsourcing as the only way to keep a business competitive into the twenty-first century (Smith & Rupp, 2013).

These operations have a noticeable contribution in companies' efforts to meet customers' expectations (Niu, Mu & Shen, 2021). Their outcomes, such as place convenience, waiting time convenience, delivery time convenience, and after sales convenience, are easily visible and assessable by the final customer and consequently delineating its purchasing behavior. The close relationship between transportation and customer service dictate that companies handle their transport services function prudently so as to receive full potential benefits (Razzaque & Sheng, 2008)

Transaction cost theory is generally accepted as a useful framework for analyzing logistics and outsourcing decisions (Hobbs, 1996; Andersson, 1997). The transaction costs reduced by outsourcing logistics include, for example, decentralized order processing, assets, working capital, and overhead. Examples of previous logistics research that have linked transaction cost analysis with logistics strategy include Ellram (1991) with regard to supply chain and operational performance; Steensma and Corley (2002) with regard to technology sourcing; Mikkola and

Mahnke, Overby, and Vang (2005) with regard to outsourcing and information technology services.

The application of agency theory provides a justification for the establishment of alliances between organizations and their service providers (Logan, 2000). Outsourcing has been defined as the transfer of the production or transfer of goods and services that have been carried out internally to an external provider (Domberger, 1998).

Logistics outsourcing has grown rapidly to impact many activities of organizations and can cover many areas, including the outsourcing of manufacturing as well as services. Abraham and Taylor (2006) provide evidence of rising outsourcing of business services in 13 US industries and Helper (2008) documents the increased outsourcing of parts in the US automobile sector. A survey in 2007 of more than 600 large companies by the American Management Association finds that substantial numbers of companies are now outsourcing in many areas.

A number of studies have been done in the area of outsourcing: Wambui (2010) who researched on the analysis of logistics outsourcing at Kenya Armed forces found out that the concept of outsourcing in the Kenyan armed forces is so much limited due to the secretive nature of their work such that adoption of the strategy is on supply of non-essential services such as stationery. She observed that in the developed world maintenance of military hardware is in some cases outsourced. On his part Kamuri (2010) undertook a research on challenges facing the implementation of logistics outsourcing strategy at the Kenyatta National Hospital and found out among others for an organization to realize the competitiveness resulting from logistics outsourcing, then it should be able to develop a cordial relationship with all the supplier of goods and services which will facilitate efficient and effective delivery of services.

Bosire (2011) researched on the Impact of logistics outsourcing on lead time and customer service among supermarkets in Nairobi. He found out that outsourcing of logistics services in supermarkets has

a direct effect with the lead times of product delivery and that among those supermarkets that have outsourced procurement of products from the suppliers; time taken to deliver the same products to their warehouses has tremendously reduced. Kangaru (2011) while researching on challenges of business outsourcing at the Kenya Power found out that third party logistics providers are ahead of manufacturing companies that operate logistics departments on quality implementation and improvement issues in logistics services. From the above studies there has been no research on how logistics outsourcing practices affect the performance of large manufacturing firms in Kenya hence the gap this study intends to fill.

METHODOLOGY

The study adopted a descriptive survey design. The target population was made up of procurement managers, stores personnel and employees of procurement department of Nzoia Sugar Company making a total of 54 respondents. The study's sampling frame included procurement managers, store officers and procurement staff. For data

analysis, this study involved the use of descriptive and inferential statistics. Regression and correlation analysis was used to determine both the nature and the strength of the relationship between study variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The regression and correlation analyses were based on the association between the two variables. SPSS version 23 is the computer analysis tool that was used in this study. Analyzed data was organized into models and tables for easy reference.

FINDINGS AND DISCUSSION

Transport Logistics Services Outsourcing

This study examined the relationship between transport logistics Services outsourcing and performance of purchasing functions of Nzoia Sugar Company. To achieve this, the researcher queried the respondents about the Transport Logistics Services Outsourcing in respect to performance of purchasing functions of Nzoia Sugar Company. The responses were as shown in Table 1.

Table 1: Descriptive Analysis for Transport Logistics Services Outsourcing

1-Strongly Disagree, 2-Disagree, 3-Undecided, 4-Agree, 5-Strongly Agree

Transport Logistics Services Outsourcing	5	4	3	2	1	Mean	SDV
Organization outsources sugarcane transportations services	10 (21.7)	23 (50)	5 (10.9)	6 (13)	2 (4.3)	3.72	1.09
The adoption of outsourcing strategy enables your organization transport sugar after manufacturing to the customers	12 (26.1)	22 (47.8)	8 (17.4)	2 (4.3)	2 (4.3)	3.87	1.00
Organization has always outsourced airline services for distanced travels especially outside the country	13 (28.3)	14 (30.4)	9 (19.6)	6 (13)	4 (8.7)	3.57	1.28
Outsourcing of by-products transport services is common in your organization	8 (17.4)	21 (45.7)	11 (23.9)	2 (4.3)	4 (8.7)	3.59	1.11
Whenever staff members fall sick, your organization mainly depend on third party Ambulance services	8 (17.4)	13 (28.3)	19 (41.3)	4 (8.7)	2 (4.3)	3.46	1.03
The company authorizes the outsourcing of transport services for goods deemed to be hazardous	9 (19.6)	17 (37)	11 (23.9)	6 (13)	3 (6.5)	3.50	1.15
Composite Mean						3.62	1.11

From Table 1, half of the sampled respondents agreed that Organization outsources sugarcane transportations services while 21.7% strongly agreed with a mean of 3.72. On the other hand, 13.0% of the respondents were not in agreement organization outsources sugarcane transportations services. The results also indicated that 47.8% of the respondents agreed that the adoption of outsourcing strategy enables their organization transport sugar after manufacturing to the customers while 26.1% of the respondent strongly agreed. On the other hand, 17.4% of the respondents were undecided with a mean of 3.87.

In regards to organization has always outsourced airline services for distanced travels especially outside the country, 28.3% of the respondents strongly agreed and 30.4% agreed on the same although 19.6% of the respondents were uncertain whether with a mean of 3.57. The results also revealed that majority of the respondents (45.7%) agreed that outsourcing of by-products transport services is common in their organization with a mean of 3.59 although 23.9% of the respondents were undecided and 17.4% strongly agreed.

The results further revealed that 17.4% of the respondents strongly agreed that whenever staff members fall sick, your organization mainly depend on third party Ambulance services while 28.3% of the respondents agreed on the same. On the other hand, 41.3% of the respondents were uncertain with a mean of 3.46. Lastly, 37.0% of the respondents agreed of that the company authorizes the outsourcing of transport services for goods deemed to be hazardous and 19.6% strongly agreed on the same with a mean of 3.5.

Averagely, the level of Transport Logistics Services Outsourcing was at 72.4% mean response (mean=3.62, std. dev. =1.11) rated high an implication that Transport Logistics Services Outsourcing influences performance of purchasing functions of Nzoia Sugar Company. The outsourcing of logistics functions has become the obvious choice with companies eyeing for cost reduction and value enhancement while distributing and

transporting products. As a result, outsourcing all or part of logistics function in a logistical supply chain to logistics service providers (LSPs) has now become the norm across the industry (Aktas, Ulengin & Onsel, 2011). This is inline which the explanation of Carol (2014) that process specific outsourcing enables a company to focus on their core strength and improve their over-all customer service. Transport logistics outsourcing has made it easier for companies to deal with the complex challenges of transportation as acknowledged by Zhu et al, (2017) who thinks transport logistics outsourcing is increasingly being adopted by firms to “reduce costs and increase flexibility.

Inferential Statistics

Regression Analysis

The study sought to examine the influence of transport logistics Services on performance of purchasing functions. Regression analysis was done with performance of purchasing functions as the dependent variable and transport logistics Services as tested predictor variable. Data from 98 respondents were tested. The research sought to establish how well the model fitted the data.

The study sought to examine the effect of transport logistics Services on performance of purchasing functions of Nzoia Sugar Company Limited. The regression analysis was used to test the amount of variance in performance of purchasing functions accounted for by transport logistics Services. It was hypothesized that:

H₀: Transport logistics Services outsourcing does not significantly influence the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya

The regression results in table 2 below revealed that there existed a significant relationship between transport logistics Services and performance of purchasing functions ($F(1,44)=27.872$, $p\text{-value}<0.001$). The coefficient of determination (R squared) of 0.388 showed that 38.8% of performance of purchasing functions could be explained by transport logistics Services. The

adjusted R-square of 37.4% indicated that transport logistics Services in exclusion of the constant variable explained the change in performance of purchasing functions by 37.4%, the remaining percentage could be explained by other factors excluded from the model. R of 0.623 showed that there is positive correlation between performance of purchasing functions and transport logistics Services. The standard error of estimate (.623) showed the average deviation of the independent variable from the line of best fit.

The study hypothesized that transport logistics Services had no significant influence on performance of purchasing functions. The study findings indicated that there was a positive significant relationship between transport logistics Services and performance of purchasing functions ($\beta=0.754$ and $t=5.279$) which had a (p-value <0.001). Further, the linear regression analysis coefficients showed that the model $Y= \beta_0 + \beta_1X_1$, was

significantly fit. The general form of the equation to predict performance of purchasing functions from $X_1=$ Transport logistics Services; becomes $= 0.475+ 0.754X_1$.

Performance of purchasing functions = $0.475+ 0.754*Transport\ logistics\ Services$.

The model Performance of purchasing functions = β (Transport logistics Services) holds as suggested by the test above. This confirmed that there is a positive linear relationship between transport logistics Services and performance of purchasing functions. Therefore, a unit increase in use of transport logistics Services index led to an increase in performance of purchasing functions index by 0.754. Since the p-value was less than 0.05 as shown in Table 2, the null hypothesis was rejected and could then be concluded that there is role played by transport logistics Services on the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya.

Table 2: Regression Analysis (Transport logistics Services)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.623 ^a	.388	.374	.7147	.388	27.872	1	44	.000

a. Predictors: (Constant), Transport logistics Services

b. Dependent Variable: Performance of purchasing functions

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	14.237	1	14.237	27.872	.000 ^b
1 Residual	22.476	44	.511		
Total	36.713	45			

a. Dependent Variable: Performance of purchasing functions

b. Predictors: (Constant), Transport logistics Services

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
	B	Std. Error			
(Constant)	.475	.535		.888	.380
1 Transport logistics Services	.754	.143	.623	5.279	.000

a. Dependent Variable: Performance of purchasing functions

The findings confirmed that of Bosire (2011) researched on the Impact of logistics outsourcing on lead time and customer service among

supermarkets in Nairobi. He found out that outsourcing of logistics services in supermarkets has a direct effect with the lead times of product

delivery and that among those supermarkets that have outsourced procurement of products from the suppliers; time taken to deliver the same products to their warehouses has tremendously reduced. The findings also concur with Brewer, Ashenbaum and Ogden (2013) on their study which sought to link logistics outsourcing and performance and established that logistics outsourcing was crucial in enhancing performance of firms. Joto (2018) sought to determine the effect of logistics outsourcing on performance of dairy processors in Kenya. The study also established a high correlation between

logistics outsourcing and firm's performance. Hence, the research concluded that logistics outsourcing can enhance firms' performance if fully adopted.

Summary of Hypotheses

This section presents the summary of hypotheses testing of the study variables. The rule of thumb was to reject the null hypothesis if the independent variable had a significant relationship with the dependent variable. The significance was tested at a critical P value of 0.05.

Table 3: Summary of Hypothesis

Hypothesis	Rule	P-Value	Comment
Transport logistics Services does not significantly influence the performance of purchasing functions	Reject H_{01} if p value <0.05	$p < 0.05$	The null hypothesis was rejected; therefore, transport logistics Services significantly influence the performance of purchasing functions

CONCLUSION AND RECOMMENDATIONS

This study was built on the hypothesized statement that 'transport logistics Services does not significantly influence the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya.' The study findings rejected the null hypothesis and established that transport logistics Services had a significant positive influence on the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya. Majority of the respondents affirmed that Organization outsourced sugarcane transportations services. The adoption of outsourcing strategy enabled the organization transport sugar after manufacturing to the customers. Further, outsourcing of by-products transport services was common in Nzoia Sugar Company Limited. Pearson Correlation revealed that there is significant relationship between transport logistic outsourcing and performance of purchasing functions of Nzoia Sugar Company. Simple linear regression indicated that transport logistic outsourcing significantly contributed to change in performance of purchasing functions of Nzoia Sugar Company.

The study concluded that transport logistics Services played a significant positive role on the performance of purchasing functions of Nzoia Sugar Company Limited in Kenya. Transport logistics Services positively influenced performance of purchasing functions through outsourcing sugarcane transportations to the factory and sugar as well as by products transportation to market.

The study highly recommended implementation of transport logistics outsourcing in operations of Sugar manufacturing companies. This is because of the benefits that could be realized if fully implementation of sugar cane to factories and sugar to market. Sugar companies should benefit by improving service delivered to customers, reducing delays, improve efficiency of services, and ensure concentration on core activities of the company.

Recommendations for Further Research

The following directions for future research should be adopted in relation to procurement outsourcing. A research into the other procurement outsourcing influencing performance of purchasing function would be very relevant since procurement outsourcing can only account for 40.3% of the performance of purchasing function in Nzoia Sugar

Company. This include warehousing outsourcing, human resource outsourcing and supplier outsourcing

The study only focused on Nzoia Sugar Manufacturing Company. In future, the same study can be extended to non-manufacturing firms to enable availability of data for comparison purposes.

Lastly, this study never considered the possible solutions to the challenges facing the manufacturing firms during the process of outsourcing procurement services. This would serve to enlighten the management on how to tackle such challenges which undermine performance of purchasing function.

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